

DEPARTMENT OF TREASURY

INTERNAL REVENUE SERVICE

FISCAL YEAR 2006

CONGRESSIONAL BUDGET SUBMISSION

**INTERNAL REVENUE SERVICE (IRS)
FY 2006 DEPARTMENTAL PERFORMANCE BUDGET REQUEST**

TABLE OF CONTENTS

SECTION 1 - STRATEGIC CONTEXT

Strategic Context for FY 2006 Budget/Performance Plan	1
Changes / Additions between the Strategic Plan and / or Budget Activities (Exhibit 1b)	10
Internal Revenue Service Support of Treasury Goals and Objectives (Table 1.1)	11
Crosswalk of Proposed Realignment of Budget Activities (Table 1.2)	13
Appropriation Language Sheet and Justification of Language Changes (Exhibit 1c)	15
Administrative Provisions – Internal Revenue Service	19
Legislative Proposals	20

SECTION 2 – THE PERFORMANCE BUDGET

Summary of FY 2006 Budget Request	22
Summary of Total Program Operating Level by Treasury Goal and Objective (Table 2.1)	25
Analysis of FY 2005 Appropriated Level (Table 2.2)	26
Digest of FY 2006 Budget Estimates by Appropriation (Table 2.3a)	26
Summary Explanations of FY 2006 Requested Changes by Appropriation (Table 2.7)	27

**SECTION 3 – EXPLANATION OF PERFORMANCE AND RESOURCES BY
APPROPRIATION AND BUDGET ACTIVITY**

Tax Administration and Operations (TAO) Appropriation	29
Narrative Summary of Program Resources and Performance (Exhibit 3a)	30
Analysis of FY 2005 Appropriated Level TAO (Table 2.2)	32
Digest of FY 2006 Budget Estimates Appropriation TAO (Table 2.3a)	32
Summary Explanations of FY 2006 Requested Changes by Budget Activity TAO (Table 2.7a)	33
Summary of Program Increases and Decreases (Exhibit 2a)	35
Budget Activity: Assistance	46
Summary of Program Resources and Performance (Table 3.1)	47
Summary of Reimbursable Resources (Table 3.2)	48
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	49
FY 2006 Performance Plan (Exhibit 3c)	50
Budget Activity: Outreach	51
Summary of Program Resources and Performance (Table 3.1)	52

Summary of Reimbursable Resources (Table 3.2)	53
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	54
FY 2006 Performance Plan (Exhibit 3c)	55
Budget Activity: Processing	56
Summary of Program Resources and Performance (Table 3.1)	57
Summary of Reimbursable Resources (Table 3.2)	58
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	59
FY 2006 Performance Plan (Exhibit 3c)	60
Budget Activity: Research	61
Summary of Program Resources and Performance (Table 3.1)	62
Summary of Reimbursable Resources (Table 3.2)	63
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	64
Budget Activity: Examination	65
Summary of Program Resources and Performance (Table 3.1)	66
Summary of Reimbursable Resources (Table 3.2)	68
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	69
FY 2006 Performance Plan (Exhibit 3c)	71
Budget Activity: Collection	72
Summary of Program Resources and Performance (Table 3.1)	73
Summary of Reimbursable Resources (Table 3.2)	74
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	75
FY 2006 Performance Plan (Exhibit 3c)	76
Budget Activity: Investigations	77
Summary of Program Resources and Performance (Table 3.1)	78
Summary of Reimbursable Resources (Table 3.2)	79
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	80
FY 2006 Performance Plan (Exhibit 3c)	82
Budget Activity: Regulatory Compliance	83
Summary of Program Resources and Performance (Table 3.1)	84
Summary of Reimbursable Resources (Table 3.2)	85
Evaluation of FY 2005 Performance Plan (Exhibit 3b)	86
FY 2006 Performance Plan (Exhibit 3c)	87
Business System Modernization (BSM) Appropriation	88
Narrative Summary of Program Resources and Performance (Exhibit 3a)	89
Budget Activity: Information Technology Investments	91
Analysis of FY 2005 Appropriated Level BSM (Table 2.2)	93

Digest of FY 2006 Budget Estimates by Appropriation BSM (Table 2.3a).....	93
Summary Explanations of FY 2006 Requested Changes by Budget Activity BSM (Table 2.7a).....	94
Summary of Program Increases and Decreases (Exhibit 2a).....	95
Summary of Program Resources and Performance (Table 3.1)	96
Evaluation of FY 2005 Performance Plan (Exhibit 3b).....	97
FY 2006 Performance Plan (Exhibit 3c).....	99
Health Insurance Tax Credit Administration (HITCA) Appropriation	100
Narrative Summary of Program Resources and Performance (Exhibit 3a).....	101
Analysis of FY 2005 Appropriated Level HITCA (Table 2.2).....	102
Digest of FY 2006 Budget Estimates by Appropriation HITCA (Table 2.3a)	102
Summary Explanations of FY 2006 Requested Changes by Budget Activity HITCA (Table 2.7a).....	103
Summary of Program Increases and Decreases (Exhibit 2a).....	104
Budget Activity: Health Care Tax Administration	105
Summary of Program Resources and Performance (Table 3.1)	106
Evaluation of FY 2005 Performance Plan (Exhibit 3b).....	107
FY 2006 Performance Plan (Exhibit 3c).....	108

SECTION 4 – SUPPORTING MATERIAL

Program Assessment Rating Tool Report (Exhibit 4b)	110
Cross-Cutting Coordination Efforts (Exhibit 4c).....	125
Detail of Full-Time Equivalent Positions by Category (Table 4.1).....	134
Detail of Full-Time Equivalent Staff Years by Grade (Table 4.2)	135
Explanation of Proposed FY 2005 Operating Budget Summary (Table 4.3)	136
Explanation of Proposed FY 2005 Operating Budget TAO Appropriation (Table 4.3).....	137
Explanation of Proposed FY 2005 Operating Budget PAM Appropriation (Table 4.3)	138
Explanation of Proposed FY 2005 Operating Budget TLE Appropriation (Table 4.3).....	139
Explanation of Proposed FY 2005 Operating Budget IS Appropriation (Table 4.3)	140
Explanation of Proposed FY 2005 Operating Budget BSM Appropriation (Table 4.3)	141
Explanation of Proposed FY 2005 Operating Budget HITCA Appropriation (Table 4.3).....	142
Standard Object Classification Schedule – Direct Obligations (Table 4.4).....	143
Verification and Validation of Data (Exhibit 4f).....	144
Summary of Budget and Program Activities (Table 4.5)	145
Summary of Capital Investments (Table 4.7)	146

APPENDIX

Restructuring the IRS Budget	149
------------------------------------	-----

SECTION 1

STRATEGIC CONTEXT

STRATEGIC CONTEXT FOR FY 2006 BUDGET/PERFORMANCE PLAN

“In recent years, the IRS has made significant progress in improving service. While the agency’s commitment to service continues, the IRS must sharpen the focus on enforcement.”

--Remarks of the Commissioner of Internal Revenue, Mark W. Everson, on unveiling the IRS Strategic Plan, July 15, 2004

The IRS Mission

Provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all

Strategic Focus

The five-year Strategic Plan, which guides the agency’s operations (from October 1, 2004 through September 30, 2009), underscores the commitment to provide quality service to taxpayers and enforce America’s tax laws in a balanced manner. The three themes of the Strategic Plan guiding the future direction of the IRS are:

Improve Taxpayer Service – Improve service by helping people understand their tax obligations and making it easier for them to participate in the tax system.

Enhance Enforcement of the Tax Law – Ensure taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident their neighbors and competitors are also doing the same.

Modernize the IRS through its People, Processes and Technology – Strategically manage resources, associated business processes and technology systems to effectively and efficiently meet service and enforcement strategic goals.

. The IRS vision of the future is best described through its most prominent business characteristics:

- Delivery of services that meets customer needs
- Citizens understand their responsibilities to pay taxes honestly
- Fair and consistent enforcement, while respecting taxpayer rights, is applied to all citizens
- Americans regard the IRS as an organization that provides a valuable service to the country

The IRS is committed to supporting the Presidential goals: (1) *promote economic opportunity and ownership* by supporting the President's tax cut proposals and reforming the tax code to make it simpler and fairer for taxpayers; (2) *Protect America* by providing support to the new Office of Terrorism and Financial Intelligence with IRS' Special Agents working on cases related to money laundering, terrorist financing, and financial crimes; (3) *Make government more effective* by applying increased tax enforcement resources to promote fair and equitable tax enforcement and increase revenue; by reducing paper processing as more taxpayers file electronically; and by reducing dependence on IRS walk-in service centers and increasing reliance on more efficient telephone and Internet service.

Current IRS Status

The Internal Revenue Service is working to make it easier for taxpayers to comply with Federal income tax rules. Each year, IRS employees make millions of contacts with American taxpayers and businesses. It is through these contacts that essential services are provided, encouraging self-sufficiency in meeting tax obligations. The IRS' role is to help the large majority of compliant taxpayers understand the tax law, while ensuring that the minority unwilling to comply pays its fair share. To achieve these goals, the Service must provide the proper balance of service and enforcement, be poised to meet taxpayer expectations and respond quickly to technological and demographic changes.

Improve Taxpayer Service: Filing season 2004 was a banner year for the IRS – over 61 million individuals filed their returns electronically – up 16 percent over 2003. Individual home computer usage to prepare and e-file tax returns soared to over 14 million returns, a 21.8 percent increase from the previous year. Tax professionals' e-filing also increased over 15 percent, with 42.8 million filing electronically. In its second year, 3.5 million taxpayers utilized "Free File," the public-private partnership between the IRS and a consortium of tax software companies, a 26 percent increase over 2003.

Internal Revenue Service

Also during the 2004 filing season, the IRS processed over 131 million individual returns, issued approximately 100 million refunds totaling \$207.9 billion, and responded to over 35.5 million telephone calls. With more account and tax law inquiries moving to the Internet for resolution, and because of new telephone lines and less complicated scripts, the assistor level of service increased 9 percent over FY 2003 and 27 percent over FY 2002. Taxpayers received correct responses to 80 percent of tax law questions and 89 percent of account questions. Fewer taxpayers heard busy signals and proceeded directly into the system, as reflected by the decrease in the average wait time -- down 21 percent from 2003.

More taxpayers used the IRS Web site, including the "Where's My Refund?" feature, which allows taxpayers to inquire if the IRS received their return and ascertain the status of their refund. In FY 2004, the Service received nearly 24 million inquiries to the online service to check on refunds. Also encouraging is that 49 million taxpayers chose to directly deposit their refunds this year, an increase of almost 11 percent from the 2003 record.

Individual taxpayers are significantly more satisfied with the e-file return process than with paper filing. A national favorability survey scored the IRS at 52 percent, up from 49 percent in 2003. This score reflects the percentage of the public that has a favorable opinion of the IRS as compared with most federal agencies.

The positive indicators below reflect the key taxpayer service outcome measures.

Taxpayer Service Measure	FY 2002	FY 2004	Percent Change
Toll Free Level of Service	68%	87%	27%
Individual Returns Filed Electronically	36%	47%	31%

Enhance Enforcement of the Tax Law: The IRS is making progress on its enforcement priorities by evaluating and adjusting its audit process to target likely areas of non-compliance. Through budget initiatives in FY 2004 and realignments in FY 2005, the IRS is building a foundation to enhance enforcement of the tax law.

In FY 2003, the IRS began reversing the erosion in enforcement performance, started in the late 1990s, by increasing productivity and quality in its major enforcement programs. It has bolstered efforts to identify, investigate and punish tax cheats. Of particular note are efforts to enhance criminal enforcement, use civil injunctions to stop abusive tax schemes, and investigate promoters and users of tax shelters. In the international arena, the commissioners of the tax administrations of the United States, Australia, Canada and the United Kingdom established a joint task force to improve collaboration about abusive tax transactions. Further, the IRS announced new settlement initiatives to encourage investors in tax shelter transactions to resolve their tax issues.

Examination of high-income individuals – those earning \$100,000 or more – exceeded 195,000 in FY 2004, a 40 percent increase from FY 2003 and a 71 percent increase from FY 2002, and will continue to increase in FY 2005 with the growing emphasis on this high-risk taxpayer group. While audits of small and mid-size corporations in FY 2004 are lower than in FY 2003, the performance appropriately reflects the Service’s transition to focus on the more complicated and labor-intensive high-risk inventory associated with abusive tax avoidance transactions. The IRS plans to increase large business examinations in FY 2005 with more experienced revenue agents handling these complex tax issues.

Closures of delinquent balance-due cases increased 37 percent from FY 2002 to FY 2004, increases of 41 percent in phone collection and 31 percent for in-person collection. The other part of the collection workload, identifying and securing delinquent returns from non-filers, increased 49 percent from FY 2002 to FY 2004, increases of 55 percent in phone collection and 40 percent for in-person collection. The automated underreporter program annually reviews three million returns matching Forms 1040 against third-party reported information such as Forms W-2 and 1099. This program increased closures 20 percent in FY 2004 from FY 2003. Criminal investigations increased 37 percent over FY 2002, and will trend higher through FY 2005. Compliance contacts with tax-exempt and government entities increased 11 percent over FY 2002.

The positive indicators below reflect the key enforcement outcome measures that support this strategic goal.

Enforcement Measure	FY 2002	FY 2004	Percent Change
High Income Individual Audit Coverage Rate	0.86%	1.47%	71%
Delinquent Balance Due Cases Closed	1,675,126	2,287,425	37%
Criminal Investigation Cases Closed	3,201	4,387	37%

Modernize the IRS Through Its People, Processes and Technology: The ability to achieve the Service’s two other strategic goals depends on fully engaged employees, efficient business processes, and the successful completion of technology modernization efforts.

In FYs 2003, 2004 and 2005, the IRS took steps to balance the scope and pace of its technology modernization program. While this transition caused IRS to defer the start of several new projects, the delay allowed improvement in overall program management and focus. Implementing a newly-developed Business Systems Modernization (BSM) Challenges Action Plan assisted in putting together the necessary policies and procedures required to strengthen the IRS’ overall performance on the modernization program. These include improving management controls, capabilities and systems acquisition practices. Other significant improvements include:

- Resizing and re-scoping the IRS' modernization efforts to better align with its management and skill capacity
- Engaging IRS business units to drive the modernization projects with a business focus
- Improving contractor performance on cost, schedule, and functionality
- Hiring outside executives to achieve the proper balance between technology talent and tax administration experience
- Shifting program leadership and responsibilities by having the Business Systems Modernization Office (BSMO) play a much larger role in overall program oversight and management

During the last three fiscal years, the IRS made significant progress across most of the BSM projects. The IRS is pleased to report that the modernization program is providing real business benefits to taxpayers and IRS employees as a result of delivering several modernized systems. For example:

- The Customer Account Data Engine (CADE) is a modern database that will house tax information for more than 200 million individual and business taxpayers, replacing the legacy system called the Master File. CADE began processing some 1040EZ returns in late FY 2004. CADE will benefit taxpayers by facilitating faster refunds and up-to-date return and refund information.
- The Service implemented the first release of the Integrated Financial System (IFS), which replaces the core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, and purchasing controls.
- The IRS fully deployed online e-Services functionality for tax practitioners and other third parties, such as banks and brokerage firms that file Form 1099s.
- Congress passed legislation allowing the use of Private Collection Agencies (PCAs). Filing & Payment Compliance will increase IRS' ability to enforce tax compliance through system improvements and will develop an information system to sort and track collection cases to be turned over to PCAs, which will enable PCAs to supplement the IRS' collection staff.
- The IRS deployed Modernized e-File, which provides e-filing for the first time to businesses and exempt organizations.

IRS Direction in FY 2006 and Beyond

The IRS must maintain high levels of taxpayer service, while focusing on corrosive areas of non-compliance. Ensuring fairness in the IRS' service and enforcement activities will restore faith in the nation's tax administration system. Estimates – based largely on studies done in the 1980s – show that the difference between taxes that are owed and what is actually paid is around one-quarter trillion dollars annually. This figure is referred to as the “tax gap.”

The requested enforcement increase in FY 2006 of \$265 million will yield substantial additional revenue. Beyond the direct incremental revenues associated with increased audits, investigations and collection activities, there will also be favorable indirect impacts. Other taxpayers will be discouraged from cheating when they observe that those who play fast and loose with the tax code are held accountable. The \$265 million is in addition to funds provided for the pay raise and other enforcement cost adjustments (\$182 million). In total, the enforcement budget increases by \$446 million.

It is important that these cost increases and new enforcement investments be fully funded. The Administration is proposing to fund them as contingent appropriations. To ensure full funding of the new enforcement investments, the Administration proposes to employ a budget enforcement mechanism that allows for an adjustment by the Budget Committees to the section 302(a) allocation to the Appropriations Committees found in the concurrent resolution on the budget. In addition, the Administration will also seek to establish statutory spending limits, as defined by section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985, and to adjust them for this purpose. To ensure full funding of the cost increases, either of these adjustments would only be permissible if the base level for IRS enforcement was funded at \$6,446 million and if the use of the funds was clearly restricted to the specified purpose. The maximum allowable adjustment to the 302(a) allocation and/or the statutory spending limit would be \$446 million for 2006.

The IRS is committed to enhancing enforcement by mutually reinforcing its strategic objectives: (1) to discourage and to deter non-compliance with emphasis on corrosive activity by corporations, high-income individuals and other contributors to the tax gap; (2) to ensure that attorneys, accountants and other tax practitioners adhere to professional standards and follow the law; (3) to detect and deter domestic and off-shore based tax and financial criminal activity; and (4) to deter abuse within tax-exempt and government entities and the misuse of such entities by third parties for tax avoidance or other unintended purposes. At no time will the IRS forego its commitment to protecting taxpayer rights in its balanced approach toward compliance -- *Service plus Enforcement equals Compliance*.

Challenges

The IRS must effectively deal with the ongoing challenges that affect the achievement of its vision. As American society becomes more diverse and as economic and social conditions become increasingly complex, the Service must be prepared to respond to a more demanding population. Tax law changes will also have a major impact on how the Service conducts business and how goals are achieved with limited funding.

Examples of some of the Service's most recent challenges are:

Delivering Service More Efficiently: The IRS will strive to continue recent gains and improvements in taxpayer service. However, budget pressures and good management practices require a constant focus on providing this same high level of service more efficiently. This budget assumes large reductions in taxpayer service funding that will be made possible through reengineering and/or major program changes. In this context, continuing improvements in the services delivered to taxpayers will be a significant challenge.

Workforce Renewal: The IRS is dedicated to continuously attracting and retaining individuals with the best skills. However, the Service, like many Federal agencies, will experience increases in retirement-eligible individuals. In addition, the IRS continues to be challenged by understaffing in mission-critical positions due to attrition and turnover. Because the IRS is committed to achieving its enforcement goals, in FY 2004 the IRS hired thousands of new enforcement personnel. Nevertheless, the Service may still experience difficulty retaining mission-critical workers even at full funding levels in FY 2006.

Systems Modernization: While the IRS has made significant progress implementing a newly developed Business Systems Modernization (BSM) Challenges Action Plan, there is still much more work to be done. The budget funds continuation of the Customer Account Data Engine, Modernized e-File, and the Filing and Payment Compliance projects. The IRS will need to efficiently monitor its BSM program to ensure timely rollout of these and other projects to meet operational needs.

Faster Corporate Audits: The average audit of large, complex corporations takes five years from the date the return is filed. In most cases this does not include the appeals process, which can run another two years before court settlement. The rapid change of the economy over the past few years and globalization of business operations demand that the IRS keep pace with these changes. The IRS must focus on ways to reduce that audit window and shorten the process to eliminate potentially abusive shelters, and respond to changes in the global economy.

Information Partnership: Since launching a partnership with 48 states, D.C. Government, New York City, the U.S. Virgin Islands and Puerto Rico, the IRS has shared 37,000 leads on possible abusive tax avoidance. The IRS must continue to work these leads to prevent even more abuse in the future by improving service, enhancing enforcement and utilizing technology.

Competitive Sourcing: The Service is continuing its efforts to improve operations and lower costs by learning from the private sector. The IRS found more effective ways to accomplish its work by successfully competing against contractor offers; this will save taxpayers millions of dollars over five years. The IRS' ability to achieve future savings resulting from competitive sourcing, however, is challenged by its financial capacity to cover the cost of studies and transitioning to implement new competitive sourcing initiatives.

e-File: The IRS has made significant progress in increasing the scope and accessibility of services offered electronically. Likewise, the IRS has enjoyed great success in moving tax return submissions from a paper-based system to an e-file environment. The challenge of the next few years will be to capitalize on these successes to include additional segments of the taxpaying public. This effort will be assisted by IRS' program improvements, such as the Modernized e-File technology program, and the enactment of the Administration's legislative proposals to extend the April filing date for electronically filed tax returns to April 30 and to expand the IRS' authority to require electronic filing.

CHANGES/ADDITIONS BETWEEN THE STRATEGIC PLAN AND/OR BUDGET ACTIVITIES (EXHIBIT 1B)

The IRS' 2005 through 2009 Strategic Plan provides a roadmap for IRS operations over the next five years. It underscores the commitment to providing excellent service to taxpayers and enforcing America's tax laws in a balanced manner. Service and enforcement are equally important priorities for the IRS, as reflected in IRS' working equation: *Service plus Enforcement equals Compliance.*

BUDGET RESTRUCTURE

To facilitate full alignment and integration of the Service's goals and measures with its resources, the IRS is proposing to restructure its budget beginning in FY 2006. These changes will facilitate a more accurate assessment of the overall value of IRS programs, simplifies the full costing of programs, and allow the IRS to demonstrate incremental increases in an initiative's effectiveness based on the level of funding received.

In addition, this new budget structure will enable the IRS to more effectively manage activities. The normal processing of tax returns generally proceeds from pre-filing activities to filing activities, and finally to compliance activities should they prove necessary. Although these activities are interrelated, their resources are currently distributed among three appropriations, with unevenly distributed support costs. This makes it difficult to manage, track and report the full cost of a given Taxpayer Service or Enforcement program.

This new budget structure will enable the IRS to prepare a true performance based budget by providing the capability to integrate operational and support costs into one appropriation, thereby allowing IRS budget activities and programs to be fully costed for the first time. The new structure will also facilitate the full incorporation of performance measures into the budget, as the measures could be tied to funds in one appropriation rather than a series of program activities dispersed across multiple appropriations. The proposed new budget structure will allow stakeholders to more accurately assess the overall value of IRS programs, and make program reviews such as the Office of Management and Budget's Program Assessment Rating Tool (PART) more effective, thus providing greater accountability and a results-oriented management focus.

INTERNAL REVENUE SERVICE SUPPORT OF TREASURY GOALS AND OBJECTIVES (Table 1.1)

The table below displays the relationship between the IRS' strategic goals and performance objectives to Treasury's Strategic Plan.

Treasury Strategic Goal: Manage the Government's Finances Effectively		
Treasury Strategic Objective	IRS Strategic Goals	IRS Performance Objectives Linked to Strategic Goal
Collect federal tax revenue when due through a fair and uniform application of the law. (F41)	Improve Taxpayer Service	<ul style="list-style-type: none"> • Improve Service Options for the Tax-Paying Public • Facilitate Participation in the Tax System by All Sectors of the Public • Simplify the Tax Process
	Enhance Enforcement of the Tax Law	<ul style="list-style-type: none"> • Detect and Deter Non-Compliance with Emphasis on Corrosive Activity by Corporations, High-Income Individual Taxpayers and Other Contributors to the Tax Gap • Ensure that Attorneys, Accountants and Other Tax Practitioners Adhere to the Professional Standards and Follow the Law • Detect and Deter Domestic and Off-Shore Based Tax and Financial Criminal Activity • Deter Abuses within Tax-Exempt and Governmental Entities and Misuse of such Entities by Third Parties for Tax Avoidance or Other Unintended Purposes
	Modernize the IRS through its People, Processes and Technology	<ul style="list-style-type: none"> • Increase Organizational Capacity to Enable Maximum Productivity of Employees • Modernize Information Systems to Improve Service and Enforcement • Ensure the Safety and Security of People, Facilities and Information Systems • Modernize Business Processes and Align the Infrastructure Support to Maximize Resources Devoted to Front-line Operations

Treasury Strategic Goal: Manage the Government's Finances Effectively		
Treasury Strategic Objective	IRS Strategic Goals	IRS Performance Objectives Linked to Strategic Goal
Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other financial criminals. (F3A)	Enhance Enforcement of the Tax Law	<ul style="list-style-type: none"> Detect and Deter Domestic and Off-Shore Based Tax and Financial Criminal Activity

Internal Revenue Service

CROSSWALK OF PROPOSED REALIGNMENT OF BUDGET ACTIVITIES (TABLE 1.2)

(Dollars in Thousands)

CURRENT BUDGET ACTIVITIES	FY 2004 Enacted		FY 2005 Enacted		FY 2006 Estimate	
	FTE	Amount	FTE	AMOUNT	FTE	AMOUNT
Processing, Assistance, and Management (PAM)						
Pre-filing Taxpayer Assistance & Education	3,881	\$624,057	3,200	\$539,374	2,835	\$522,936
Filing & Account Services	30,574	1,688,487	28,843	\$1,710,368	28,181	\$1,696,654
Shared Services Support	4,636	1,234,363	3,591	\$1,210,874	3,567	\$1,298,163
General Management & Administration	3,241	462,298	4,267	\$596,241	4,257	\$618,824
Subtotal, PAM	42,333	\$4,009,205	39,901	\$4,056,857	38,839	\$4,136,578
Tax Law Enforcement (TLE)						
Compliance Services	45,447	\$3,879,164	45,686	\$4,104,471	47,675	\$4,459,660
Research and SOI	877	90,938	866	\$94,474	866	\$96,923
Earned Income Tax Credit	2,823	201,142	2,580	\$164,594	2,580	\$169,173
Subtotal, TLE	49,147	\$4,171,244	49,132	\$4,363,539	51,121	\$4,725,756
Information Systems (IS)						
IS Improvement Programs	0	\$49,302	0	\$49,002	0	\$49,454
Information Services	7,559	1,532,273	7,385	\$1,528,766	7,032	\$1,548,262
Subtotal, IS	7,559	\$1,581,575	7,385	\$1,577,768	7,032	\$1,597,717
Sub-Total, PAM, TLE, and IS	99,038	\$9,762,024	96,417	\$9,998,165	96,993	\$10,460,051
Business Systems Modernization (BSM)						
Information Technology Investments	0	\$387,699	0	\$203,360	0	\$199,000
Subtotal, BSM	0	\$387,699	0	\$203,360	0	\$199,000
Health Insurance Tax Credit Administration (HITCA)						
Health Care Tax Administration	17	\$34,794	17	\$34,562	17	\$20,210
Subtotal, HITCA	17	\$34,794	17	\$34,562	17	\$20,210
Total, Appropriated Resources	99,055	\$10,184,517	96,434	\$10,236,087	97,010	\$10,679,261

Numbers may not add due to rounding.

Internal Revenue Service

CROSSWALK OF PROPOSED REALIGNMENT OF BUDGET ACTIVITIES (TABLE 1.2)

(Dollars in Thousands)

PROPOSED BUDGET ACTIVITIES	FY 2004 Enacted		FY 2005 Enacted		FY 2006 Estimate	
	FTE	Amount	FTE	AMOUNT	FTE	AMOUNT
Tax Administration and Operations (TAO)						
Assistance	21,739	\$1,828,373	20,798	\$1,829,190	20,160	\$1,805,965
Outreach	2,871	\$544,146	2,473	\$500,329	1,905	\$466,217
Processing	17,418	\$1,337,128	15,695	\$1,276,459	15,516	\$1,295,273
Research	1,144	\$146,355	1,119	\$153,876	1,119	\$157,872
Examination	30,329	\$3,214,410	31,498	\$3,477,623	32,284	\$3,711,889
Collection	18,390	\$1,779,233	18,023	\$1,825,715	18,815	\$1,990,562
Investigations	5,001	\$656,131	4,899	\$681,980	5,250	\$767,418
Regulatory Compliance	2,146	\$256,248	1,912	\$252,993	1,944	\$264,855
Subtotal, TAO	99,038	\$9,762,024	96,417	\$9,998,165	96,993	\$10,460,051
Business Systems Modernization (BSM)						
Information Technology Investments	0	\$387,699	0	\$203,360	0	\$199,000
Subtotal, BSM	0	\$387,699	0	\$203,360	0	\$199,000
Health Insurance Tax Credit Administration (HITCA)						
Health Care Tax Administration	17	\$34,794	17	\$34,562	17	\$20,210
Subtotal, HITCA	17	\$34,794	17	\$34,562	17	\$20,210
Total, Appropriated Resources	99,055	\$10,184,517	96,434	\$10,236,087	97,010	\$10,679,261

Numbers may not add due to rounding.

APPROPRIATION LANGUAGE SHEET AND JUSTIFICATION OF LANGUAGE CHANGES (EXHIBIT 1c)

**DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE**

Federal Fund

General and special Fund:

TAX ADMINISTRATION AND OPERATIONS

For necessary expenses of the Internal Revenue Service for tax administration operations, as authorized by law; purchase (for police-type use, not to exceed 850) and hire of passenger motor vehicles (31 U.S.C. 1343(b); including developmental information systems and operational information systems; and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$10,013,555,000, of which \$55,584,000 shall be for the Interagency Crime and Drug Enforcement program; of which up to \$4,100,000 shall be for the Tax Counseling for the Elderly Program; of which up to \$8,000,000 shall be available for low-income taxpayer clinic grants; and of which not to exceed \$25,000 shall be for official reception and representation expenses: Provided further, that of the funding available for research not to exceed \$1,000,000 shall remain available until September 30, 2007: Provided further, that of the funding available for information technology management and development not to exceed \$75,000,000 shall remain available until September 30, 2007: Provided, That not less than \$6,446,100,000 shall be available only for tax enforcement.

In addition to funding already available under this heading, and subject to the same terms and conditions, \$446,496,000 for enhanced tax enforcement: Provided, that the Secretary shall provide not later than 180 days following the end of fiscal year 2006 to the Congress a report on tax enforcement which includes estimates for the entire tax enforcement program and for the tax enforcement initiative of:

- (A) tax enforcement spending,*
- (B) tax enforcement workload indicators,*
- (C) direct tax enforcement revenue, and*
- (D) an explanation of the methodology and accuracy of the estimates provided*

Explanation of Tax Administration and Operations Appropriation Language

As noted above, the Budget proposes a consolidated appropriation for IRS operations. This language also reflects Interagency Crime and Drug Enforcement funding previously funded in the Department of Justice. Finally, the Administration is proposing to fund the enforcement increases as contingent appropriations. To ensure full funding of the new enforcement investments, the Administration proposes to employ a budget enforcement mechanism that allows for an adjustment by the Budget Committee to the section 302(a) allocation to establish statutory spending limits, as defined by section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985, and to adjust them for this purpose. To ensure full funding of the cost increases, either of these adjustments would only be permissible if the base level for IRS enforcement was funded at \$6,446 million and if the use of the funds was clearly restricted to the specified purpose. The maximum allowable adjustment to the 302(a) allocation and/or the statutory spending limit would be \$446 million for 2006 bringing the total enforcement level for the IRS to \$6,892 million.

[PROCESSING, ASSISTANCE, AND MANAGEMENT]

[For necessary expenses of the Internal Revenue Service for pre-filing taxpayer assistance and education, filing and account services, shared services support, general management and administration; and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$4,089,574,000, of which up to \$4,100,000 shall be for the Tax Counseling for the Elderly Program, of which \$8,000,000 shall be available for low-income taxpayer clinic grants, and of which not to exceed \$25,000 shall be for official reception and representation expenses.]

[TAX LAW ENFORCEMENT] [(INCLUDING TRANSFER OF FUNDS)]

[For necessary expenses of the Internal Revenue Service for determining and establishing tax liabilities; providing litigation support; conducting criminal investigation and enforcement activities; securing unfiled tax returns, collecting unpaid accounts; conducting a document matching program; resolving taxpayer problems through prompt identification, referral and settlement; expanded customer service and public outreach programs, strengthened enforcement activities, and enhanced research efforts to reduce erroneous filings associated with the earned income tax credit; compiling statistics of income and conducting compliance research, purchase (for police-type use, not to exceed 850) and hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$4,398,729,000, of which not to exceed \$1,000,000 shall remain available until September 30, 2007 for research: *Provided*, That up to \$10,000,000 may be transferred as necessary from this account to the IRS Processing, Assistance, and Management appropriation or the IRS Information Systems appropriation solely for the purposes of management of the Earned Income Tax Credit compliance program and to reimburse the Social Security Administration for the cost of

Internal Revenue Service

implementing section 1090 of the Taxpayer Relief Act of 1997 (Public Law 105-33): *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this act.]

[INFORMATION SYSTEMS]

[For necessary expenses of the Internal Revenue Service for information systems and telecommunications support, including developmental information systems and operational information systems; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$1,590,492,000, of which \$200,000,000 shall remain available until September 30, 2006.] (*Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005.*)

HEALTH INSURANCE TAX CREDIT ADMINISTRATION

For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), [\$34,841,000] \$20,210,000. (*Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005.*)

Explanation of Health Insurance Tax Credit Administration Appropriation Language

This appropriation provides operating funding to administer the advance payment feature of the Trade Adjustment Assistance health insurance tax credit program to assist dislocated workers with their health insurance premiums. The tax credit program was enacted by the Trade Act of 2002 (P.L. 107-210) and became effective in August of 2003. The 2006 request is \$15 million lower than the 2005 enacted level. The program is fully operational and anticipated costs have been reduced.

BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service, [\$205,000,000] \$199,000,000, to remain available until September 30, [2007]2008, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including contractual costs associated with operations authorized by 5 U.S.C. 3109: *Provided*, That none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations[, and such Committees approve,] a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11 [part 3]; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and

Budget; (5) has been reviewed by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government. (*Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005.*)

Explanation of Business Systems Modernization Appropriation Language

Requiring Committee approval contravenes *INS v. Chadha*, 462 U.S. 919 (1983).

Reference to OMB Circular A-11 part 3 removed because Circular A-11 has been reorganized and the “part 3” reference is no longer applicable.

ADMINISTRATIVE PROVISIONS – INTERNAL REVENUE SERVICE

Sec. 201. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service [or not to exceed 3 percent of appropriations under the heading “Tax Law Enforcement”] may be transferred to any other Internal Revenue Service appropriation [upon the advance approval] *fifteen days after notification of the Committees on Appropriations: Provided, That no such transfer may reduce funding for tax enforcement.*

Sec 202. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers’ rights, in dealing courteously with the taxpayers, and in cross-cultural relations.

Sec 203. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.

[Sec 204. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased manpower to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to increase phone lines and staff to improve the Internal Revenue Service 1-800 help line service.] *(Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005)*

LEGISLATIVE PROPOSALS

The IRS must find ways to effectively administer tax law changes to minimize complexity, burden on taxpayers and the cost of administration. The proposals below reflect the IRS' ongoing effort to manage the agency efficiently and effectively. They reshape the IRS workload by: 1) allowing the IRS to concentrate its resources on high income, high-risk areas; 2) automating resources to reduce manual actions, and 3) broadening administrative authorities and accesses to support further electronic administration and tax reform.

- Make Section 1203 of the IRS Restructuring and Reform Act of 1998 more effective and fair.
- Curb the use of frivolous submissions and filings made to impede or delay tax administration.
- Allow for the termination of installment agreements for failure to file returns and for failure to make tax deposits.
- Consolidate judicial review of collection due process cases in the United States Tax Court.
- Eliminate the monetary threshold for counsel review of offers in compromise.
- Allow the Financial Management Service to retain transaction fees from levied amounts to recover delinquent taxes.
- Extend the due date for electronically filed returns to provide additional incentive for taxpayers to e-file and expand the authority to require electronic filing by businesses and exempt organizations.
- Allow IRS to access information in the National Directory of New Hires for tax administration purposes.

SECTION 2

THE PERFORMANCE BUDGET

Summary of FY 2006 Budget Request

This budget reflects program reductions, reengineering, reinvestment of savings, and increases in Enforcement. The total IRS budget request for FY 2006 is \$10.679 billion and 97,010 FTE. This is an increase of \$0.443 billion and 576 FTE over the FY 2005 enacted funding level of \$10.236 billion and 96,434 FTE. This budget request includes a net increase of \$264.6 million and 1,672 FTE to enhance the IRS enforcement programs; a net decrease of \$134.1 million and 1,383 FTE from reengineering of taxpayer service programs; and an increase for pay raise annualization, base transfer adjustments and costs to Maintain Current Levels of \$276.3 million. The request also includes \$55.6 million for Interagency Crime and Drug Enforcement activities that were previously reimbursed to the IRS from the Department of Justice. With the requested funding for FY 2006, and a continued focus on enhancing enforcement, the IRS will make further progress in achieving its goals, accomplishing its mission, and meeting the public's expectations.

Enhance Enforcement of the Tax Law: The IRS' FY 2006 budget request includes increased staffing to continue the positive enforcement trend begun in FY 2003, continuing through FY 2004 and FY 2005. The FY 2006 request focuses on the following enforcement priorities:

- Promotion and use of abusive tax schemes, including offshore transactions
- Abusive employment and corporate tax avoidance transactions
- Non-filing by high-income individuals

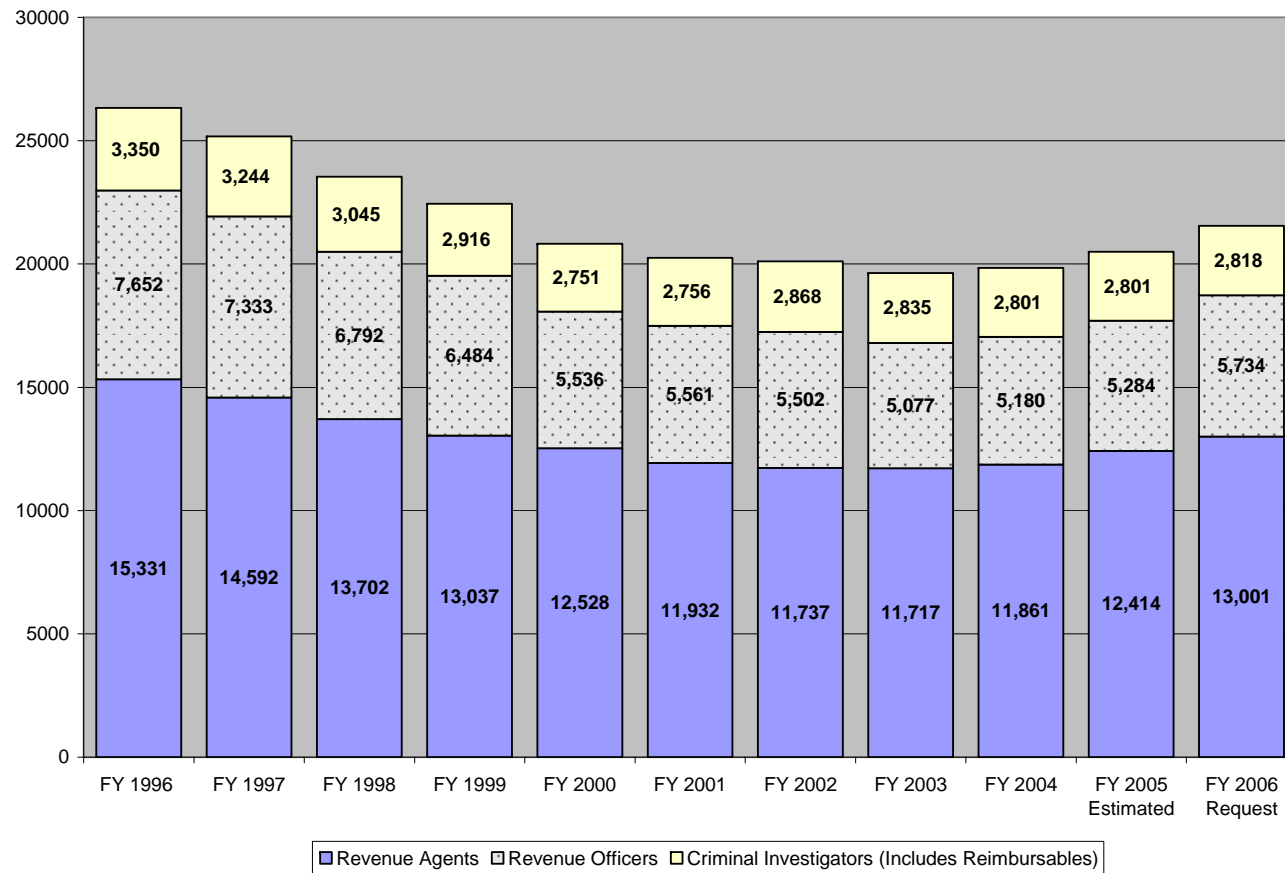
This budget request includes a net increase of \$264.6 million and 1,672 FTE for enforcement and proposed reinvestments for enforcement totaling \$88 million and 793 FTE. About ninety-five percent will be used to detect and deter non-compliance, with an emphasis on non-compliance by corporations, high-income individuals and other contributors to the Tax Gap; the remaining five percent will be used to detect and deter non-compliance within tax-exempt and government entities. When full performance levels are reached these new investments will yield:

- Increase in field examinations for high-income individuals with complex returns; significant increase in collection cases processed; and closing of over 40 percent more delinquent balance-due accounts in FY 2008 than in FY 2004
- Nearly double the audit coverage for individuals with income between \$250,000 and \$1 million, from 1.5 percent in FY 2004 to 2.8 percent in FY 2008
- Auditing 15 percent more individuals earning above \$1 million, from 3.4 percent projected for FY 2004 to 3.9 percent in FY 2008
- Significantly more collection cases processed, closing 50 percent more delinquent accounts in FY 2008 than FY 2004

Internal Revenue Service

- Double the audit coverage for mid-size corporations, from 7.6 percent in FY 2004 to 16 percent in FY 2008
- Increased efforts to deter abusive tax shelters among corporations

Enforcement Workforce is Recovering



While the enforcement workforce is recovering from recent staffing declines, more staffing is needed in FY 2006 to bolster enforcement activities. For example, audits of high-income individuals increased by 40 percent, to 139,000 from FY 2000 to FY 2003, but the growth in the number of high-income filers meant the 40 percent increase only resulted in a 10 percent increase in the audit coverage rate, to 1.06 percent. The IRS FY 2006 request will increase resources devoted to collecting tax debts. Most importantly, the requested enforcement increase will produce significant revenue.

SUMMARY OF TOTAL PROGRAM OPERATING LEVEL BY TREASURY GOAL AND OBJECTIVE (TABLE 2.1)
(Dollars in Thousands)

TREASURY GOAL/OBJECTIVE	FY 2004		FY 2005 Estimate	FY 2006 Estimate
	Target	Actual Obligations		
TREASURY GOAL: Manage the Government's Finances Effectively Budget Obligations (appropriated and reimbursables) Full-time Equivalents (direct and reimbursables) <i>Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law</i>	\$10,138,490 99,398	\$9,933,018 97,464	\$10,200,717 96,174	\$10,613,802 96,666
Tax Administration & Operations Appropriated Budget Obligations/User Fees Appropriated Full-time Equivalents FTE Reimbursable Reimbursable FTE	\$9,715,997 97,930 \$76,258 669	\$9,644,379 96,783 \$76,258 669	\$9,893,182 95,480 \$69,613 677	\$10,327,101 95,982 \$67,491 667
Business Systems Modernization Appropriated Budget Obligations/User Fees Appropriated Full-time Equivalents FTE Reimbursable Reimbursable FTE	\$387,699	\$182,776	\$203,360	\$199,000
Health Insurance Tax Credit Administration Appropriated Budget Obligations/User Fees Appropriated Full-time Equivalents FTE Reimbursable Reimbursable FTE	\$34,794 17	\$29,605 12	\$34,562 17	\$20,210 17
TREASURY GOAL: Preserve the Integrity of Financial Systems Budget Obligations (appropriated and reimbursables) Full-time Equivalents (direct and reimbursables) <i>Objective: Disrupt and dismantle financial infrastructure of terrorist, drug traffickers, and other financial criminals</i>	\$197,928 1,558	\$201,342 1,271	\$294,369 1,266	\$268,459 1,013
Tax Administration & Operations Appropriated Budget Obligations/User Fees Appropriated Full-time Equivalents FTE Reimbursable Reimbursable FTE	\$108,551 1,108 \$89,377 469	\$111,965 802 \$89,377 469	\$204,982 937 \$89,387 329	\$232,950 1,011 \$35,509 2
Grand Total Budget Obligations (appropriated and reimbursable) Grand Total Full-Time Equivalents (FTE)	\$10,412,676 101,751	\$10,134,360 98,735	\$10,495,087 97,440	\$10,882,261 97,679

Numbers may not add due to rounding.

Internal Revenue Service

ANALYSIS OF FY 2005 TOTAL APPROPRIATED LEVEL (TABLE 2.2)

	FTE	Amount (\$000)
FY 2005 President's Budget.....	101,272	\$10,674,362
Congressional Action.....	(4,838)	(\$355,726)
FY 2005 Enacted (P.L. 108-447).....	96,434	\$10,318,636
FY 2005 Appropriation Rescission (P.L. 108-447).....	-	(\$82,549)
FY 2005 Proposed Operating Level.....	96,434	\$10,236,087

DIGEST OF FY 2006 BUDGET ESTIMATES BY APPROPRIATION (TABLE 2.3a)

(Dollars in Thousands)

Internal Revenue Service	FY 2004 Actual Resources		FY 2005 Budget Estimate		FY 2006 Budget Estimate		INCREASE (+) OR DECREASE (-) FOR FY 2006					
							TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources												
Tax Administration & Operations	99,038	\$9,762,024	96,417	\$9,998,165	96,993	\$10,460,051	576	\$461,887	247	\$130,430	329	\$331,457
Business Systems Modernization		\$387,699		\$203,360		\$199,000		(\$4,360)				(\$4,360)
Health Insurance Tax Credit Administration	17	\$34,794	17	\$34,562	17	\$20,210		(\$14,352)				(\$14,352)
Total, Appropriated Resources	99,055	\$10,184,517	96,434	\$10,236,087	97,010	\$10,679,261	576	\$443,175	247	\$130,430	329	\$312,745
Adjustments (+/-):												
Unobligated Balance Available, SOY		\$209,724		\$257,200		\$93,000		(\$164,200)				(\$164,200)
Unobligated Balance Available, EOY		(\$257,200)		(\$93,000)		(\$88,000)		\$5,000				\$5,000
Unobligated Balance Expiring		(\$59,429)										
Recoveries of prior year Obligations		\$33,056										
FTE Adjustments	(1,458)											
Offsetting Collections - Reimbursable	1,138	\$165,635	1,006	\$159,000	669	\$103,000	(337)	(\$56,000)			(337)	(\$56,000)
Unobligated Reimbursable Collections		\$527										
Mandatory Appropriation - User Fees		\$62,524		\$100,000		\$100,000						
50% Carryover		\$25,446		\$26,000				(\$26,000)				(\$26,000)
Transfers In/Out (all sources)		\$266										
Subtotal, Adjustments	(320)	\$180,549	1,006	\$449,200	669	\$208,000	(337)	(\$241,200)			(337)	(\$241,200)
Program Operating Level												
Tax Administration & Operations	98,723	\$9,991,666	97,423	\$10,305,036	97,662	\$10,663,050	239	\$358,016	247	\$130,430	(8)	\$227,586
Business Systems Modernization		\$333,690		\$340,572		\$204,000		(\$136,572)				(\$136,572)
Health Insurance Tax Credit Administration	12	\$39,710	17	\$39,679	17	\$20,210		(\$19,469)				(\$19,469)
Total, Program Operating Level	98,735	\$10,365,066	97,440	\$10,685,287	97,679	\$10,887,261	239	\$201,975	247	\$130,430	(8)	\$71,545

Numbers may not add due to rounding.

Internal Revenue Service

SUMMARY EXPLANATIONS OF FY 2006 REQUESTED CHANGES BY APPROPRIATION (TABLE 2.7)						
(Dollars in Thousands)						
Requested Changes	Tax Administration & Operations		Business Systems Modernization (BSM)		Health Insurance Tax Credit Administration (HITCA)	
	FTE	Amount	FTE	Amount	FTE	Amount
1. BASE REENGINEERING:						
Taxpayer Services						
a. Taxpayer Service Reengineering	(1,205)	(\$134,103)				(\$134,103)
b. Savings from Increased Individual Master File (IMF) E-Filing	(190)	(\$7,700)				(\$7,700)
Enforcement						
c. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations	(649)	(\$66,654)				(\$66,654)
d. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations	(134)	(\$14,928)				(\$14,928)
e. Detect and Deter Corrosive Corporate Non-Compliance	(52)	(\$6,711)				(\$6,711)
SUBTOTAL, BASE REENGINEERING	(2,230)	(\$230,096)				(\$230,096)
2. PROGRAM REINVESTMENTS						
Taxpayer Service						
a. Increase Returns Processing Efficiencies	12	\$7,600				\$7,600
Enforcement						
b. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations	585	\$66,654				\$66,654
c. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations	156	\$14,928				\$14,928
d. Detect and Deter Corrosive Corporate Non-Compliance	52	\$6,711				\$6,711
SUBTOTAL, PROGRAM REINVESTMENTS	805	\$95,893				\$95,893
3. PROGRAM INCREASES						
Enforcement						
a. Attack Corrosive Non-Compliance Activity Driving the Tax Gap	920	\$149,700				\$149,700
b. Detect and Deter Corrosive Corporate Non-Compliance	236	\$51,800				\$51,800
c. Increase Individual Taxpayer Compliance	417	\$37,900				\$37,900
d. Curtail Fraudulent Refund Crimes	22	\$10,772				\$10,772
e. Combat Abusive Transactions by Entities with Special Tax Status	77	\$14,460				\$14,460
SUBTOTAL, PROGRAM INCREASES	1,672	\$264,632				\$264,632
4. TOTAL ADJUSTMENTS TO BASE:						
a. Labor Annualization		\$151,471			\$12	\$151,483
b. Labor MCL (Includes FECA transfer to TIGTA of \$201)		\$69,237			\$52	\$69,289
c. Non-Labor MCL (Includes adjustment to cover HITCA full costing of \$202)		\$55,164			\$976	\$56,140
d. Transfer ICDE funding from Justice	329	\$55,584				\$55,584
e. Business Systems Modernization Savings				(\$4,360)		(\$4,360)
f. Reduce Health Insurance Tax Credit Administration					(\$15,392)	(\$15,392)
SUBTOTAL, TOTAL ADJUSTMENTS TO BASE:	329	\$331,456		(\$4,360)		\$312,744
TOTAL CHANGES, BUDGET AUTHORITY	576	\$461,885		(\$4,360)		\$443,173

Numbers may not add due to rounding.

SECTION 3

EXPLANATION OF PERFORMANCE AND RESOURCES BY APPROPRIATION AND BUDGET ACTIVITY

TAX ADMINISTRATION AND OPERATIONS (TAO) APPROPRIATION

NARRATIVE SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (Exhibit 3a)

Tax Administration and Operations (TAO)

The Tax Administration and Operations (TAO) appropriation provides resources for the IRS' taxpayer service and enforcement programs. The IRS is responsible for ensuring that each American taxpayer receives prompt and professional service before, during, and after the January to April filing season. To that end, a portion of the resources in the TAO appropriation is dedicated to providing assistance to taxpayers in all forms – electronic interaction, published guidance, paper correspondence, telephone contact, and face-to-face communication – so that each taxpayer may fulfill their tax obligations in as timely, accurate, and stress-free manner as possible. It also includes the resources to administer the processing and disposition of tax returns, refunds and other filing materials.

Another critical operational responsibility of the IRS is the fair enforcement of our nation's tax laws. Each year, a small percentage of taxpayers file erroneous returns or simply fail to file a return at all. These taxpayers may have unintentionally misstated their obligations, or might have made a deliberate effort to defraud the government. The IRS conducts enforcement activities using any number of methods, including correspondence audits, matching reporting documents (such as W-2s) to information on taxpayer returns, in-person audits, criminal investigation of potential violations of the Internal Revenue Code and other financial crimes, provisions of legal advice and litigation services and participation in joint governmental task forces. The TAO appropriation provides the resources required for equitable enforcement of the tax code and the investigation and prosecution of individuals and organizations that circumvent tax laws and ignore their tax obligations in the courts.

The resources in the TAO appropriation are divided among eight major budget activities that align with the IRS' Taxpayer Service and Enforcement goals. The eight budget activities are Assistance, Outreach, Processing, Research, Examination, Collection, Investigations and Regulatory Compliance. The resources in these activities are fully burdened; that is, the total cost to conduct the programs within each budget activity is identified. When the IRS carries out one of its core functions (returns processing for example) there are direct costs to be paid, such as the salaries and benefits associated with the employees handling the returns. However, there are also support costs, including rent, computer technical support, and other functions and expenses that are considered overhead but nonetheless essential to the successful operation of the program in question. This appropriation allocates these support and overhead costs such as information technology management, shared services, administrative legal services, and administrative support among its eight new programs.

Internal Revenue Service

Treasury launched a process to streamline its current set of performance measures. This effort will increase the value of the information provided to our stakeholders and in response to congressional requests, while focusing our priorities and reducing administrative burden. At the bureau level, measures that are no longer included in the budget submission are classified as "discontinued," and are indicated as such. These measures are only being discontinued for external reporting purposes, and the IRS will continue to internally collect and monitor them. The end result will be a more concise explanation of program performance relative to prior years.

Internal Revenue Service

ANALYSIS OF FY 2005 TOTAL APPROPRIATED LEVEL (TABLE 2.2)

	FTE	Amount (\$000)
FY 2005 President's Budget.....	101,255	\$10,354,521
Congressional Action.....	(4,838)	(\$275,726)
FY 2005 Enacted (P.L. 108-447).....	96,417	\$10,078,795
FY 2005 Appropriation Rescission (P.L. 108-447).....	-	(\$80,630)
FY 2005 Proposed Operating Level.....	96,417	\$9,998,165

DIGEST OF FY 2006 BUDGET ESTIMATES BY APPROPRIATION (TABLE 2.3a)

(Dollars in Thousands)												
Tax Administration & Operations	FY 2004		FY 2005		FY 2006		INCREASE (+) OR DECREASE (-) FOR FY 2006					
	Actual Resources		Budget Estimate		Budget Estimate		TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources												
Assistance	21,738	\$1,828,373	20,798	\$1,829,190	20,160	\$1,805,965	(638)	(\$23,224)	(638)	(\$74,954)		\$51,730
Outreach	2,871	\$544,146	2,473	\$500,329	1,905	\$466,217	(567)	(\$34,111)	(567)	(\$43,961)		\$9,850
Processing	17,418	\$1,337,128	15,695	\$1,276,459	15,516	\$1,295,273	(178)	\$18,813	(178)	(\$15,288)		\$34,101
Research	1,144	\$146,355	1,119	\$153,876	1,119	\$157,872	0	\$3,998				\$3,998
Examination	30,329	\$3,214,410	31,498	\$3,477,623	32,284	\$3,711,889	785	\$234,262	785	\$135,629		\$98,633
Collection	18,390	\$1,779,233	18,023	\$1,825,715	18,815	\$1,990,562	792	\$164,849	792	\$113,593		\$51,256
Investigations	5,001	\$656,131	4,899	\$681,980	5,250	\$767,418	351	\$85,438	22	\$10,772	329	\$74,666
Regulatory Compliance	2,146	\$256,248	1,912	\$252,993	1,944	\$264,855	32	\$11,862	32	\$4,639		\$7,223
Total, Appropriated Resources	99,038	\$9,762,024	96,417	\$9,998,165	96,993	\$10,460,051	576	\$461,887	247	\$130,430	329	\$331,457
Adjustments (+/-):												
Unobligated Balance Available, SOY		\$36,674		\$21,871				(\$21,871)				(\$21,871)
Unobligated Balance Available, EOY		(\$21,871)										
Unobligated Balance Expiring		(\$56,585)										
Recoveries of prior year Obligations		\$17,026										
FTE Adjustment	(1,453)											
Offsetting Collections - Reimbursable	1,138	\$165,635	1,006	\$159,000	669	\$103,000	(337)	(\$56,000)			(337)	(\$56,000)
Unobligated Reimbursable Collections		\$527										
Mandatory Appropriation - User Fees		\$62,524		\$100,000		\$100,000						
50% Carryover		\$25,446		\$26,000				(\$26,000)				(\$26,000)
Transfers In/Out (all sources)		\$266										
Subtotal, Adjustments	(315)	\$229,642	1,006	\$306,871	669	\$203,000	(337)	(\$103,871)			(337)	(\$103,871)
Program Operating Level												
Assistance	22,267	\$1,850,749	21,179	\$1,929,619	20,541	\$1,882,177	(638)	(\$47,442)	(638)	(\$74,954)		\$27,512
Outreach	3,215	\$557,510	2,481	\$522,674	1,914	\$481,902	(567)	(\$40,771)	(567)	(\$43,961)		\$3,190
Processing	17,187	\$1,295,828	15,841	\$1,337,941	15,662	\$1,339,762	(178)	\$1,821	(178)	(\$15,288)		\$17,109
Research	1,063	\$143,045	1,133	\$155,186	1,133	\$159,182	0	\$3,998	0	\$0		\$3,998
Examination	30,709	\$3,353,539	31,589	\$3,491,029	32,375	\$3,725,294	785	\$234,262	785	\$135,629		\$98,633
Collection	17,768	\$1,776,094	18,035	\$1,829,089	18,826	\$1,993,936	792	\$164,849	792	\$113,593		\$51,256
Investigations	4,569	\$759,637	5,239	\$784,042	5,253	\$813,480	14	\$29,438	22	\$10,772	(8)	\$18,666
Regulatory Compliance	1,944	\$255,262	1,926	\$255,455	1,958	\$267,317	32	\$11,862	32	\$4,639		\$7,223
Total, Program Operating Level	98,723	\$9,991,666	97,423	\$10,305,036	97,662	\$10,663,050	239	\$358,016	247	\$130,430	(8)	\$227,586
Numbers may not add due to rounding.												

Internal Revenue Service

SUMMARY EXPLANATIONS OF FY 2006 REQUESTED CHANGES BY BUDGET ACTIVITY (TABLE 2.7a)								
Tax Administration and Operations Appropriation (1 of 2)								
(Dollars in Thousands)								
Requested Changes	Assistance		Outreach		Processing		Taxpayer Service Subtotal	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. BASE REENGINEERING:								
Taxpayer Service								
a. Taxpayer Service Reengineering	(638)	(\$74,954)	(567)	(\$43,961)		(\$15,188)	(1,205)	(\$134,103)
b. Savings from Increased Individual Master File (IMF) E-Filing					(190)	(\$7,700)	(190)	(\$7,700)
Enforcement								
c. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations								
d. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations								
e. Detect and Deter Corrosive Corporate Non-Compliance								
SUBTOTAL, BASE REENGINEERING	(638)	(\$74,954)	(567)	(\$43,961)	(190)	(\$22,888)	(1,395)	(\$141,803)
2. REINVESTMENTS								
Taxpayer Service								
a. Increase Returns Processing Efficiencies					12	\$7,600	12	\$7,600
Enforcement								
b. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations								
c. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations								
d. Detect and Deter Corrosive Corporate Non-Compliance								
SUBTOTAL, REINVESTMENTS					12	\$7,600	12	\$7,600
3. PROGRAM INCREASES								
Enforcement								
a. Attack Corrosive Non-Compliance Activity Driving the Tax Gap								
b. Detect and Deter Corrosive Corporate Non-Compliance								
c. Increase Individual Taxpayer Compliance								
d. Curtail Fraudulent Refund Crimes								
e. Combat Abusive Transactions by Entities with Special Tax Status								
SUBTOTAL, INCREASES								
4. TOTAL ADJUSTMENTS TO BASE:								
a. Labor Annualization		\$28,400		\$4,301		\$18,240		\$50,941
b. Labor MCL (Includes FECA transfer to TIGTA of \$201)		\$12,961		\$1,983		\$8,351		\$23,295
c. Non-Labor MCL (Includes adjustment to cover HITCA full costing of \$202)		\$10,369		\$3,566		\$7,508		\$21,443
d. Transfer ICDE funding from Justice								
SUBTOTAL, TOTAL ADJUSTMENTS TO BASE:		\$51,730		\$9,850		\$34,099		\$95,679
TOTAL CHANGES, BUDGET AUTHORITY	(638)	(\$23,224)	(567)	(\$34,111)	(178)	\$18,811	(1,383)	(\$38,524)

Numbers may not add due to rounding.

Internal Revenue Service

SUMMARY EXPLANATIONS OF FY 2006 REQUESTED CHANGES BY BUDGET ACTIVITY (TABLE 2.7a)

Tax Administration and Operations Appropriation (2 of 2)
(Dollars in Thousands)

Requested Changes	Research		Examination		Collection		Investigations		Regulatory Compliance		Enforcement Subtotal	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. BASE REENGINEERING:												
Taxpayer Services												
a. Taxpayer Service Reengineering												
b. Savings from Increased Individual Master File (IMF) E-Filing												
Enforcement												
c. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations			(450)	(\$52,708)	(199)	(\$13,946)					(649)	(\$66,654)
d. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations					(134)	(\$14,928)					(134)	(\$14,928)
e. Detect and Deter Corrosive Corporate Non-Compliance			(52)	(\$6,711)							(52)	(\$6,711)
SUBTOTAL, BASE REENGINEERING			(502)	(\$59,419)	(333)	(\$28,874)					(835)	(\$88,293)
2. PROGRAM REINVESTMENTS												
Taxpayer Service												
a. Increase Returns Processing Efficiencies												
Enforcement												
b. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations			327	\$37,022	258	\$29,632					585	\$66,654
c. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations					156	\$14,928					156	\$14,928
d. Detect and Deter Corrosive Corporate Non-Compliance			52	\$6,711							52	\$6,711
SUBTOTAL, REINVESTMENTS			379	\$43,733	414	\$44,560					793	\$88,293
3. PROGRAM INCREASES												
Enforcement												
a. Attack Corrosive Non-Compliance Activity Driving the Tax Gap			382	\$67,002	529	\$81,125			9	\$1,573	920	\$149,700
b. Detect and Deter Corrosive Corporate Non-Compliance			233	\$51,237					3	\$563	236	\$51,800
c. Increase Individual Taxpayer Compliance			235	\$21,119	182	\$16,781					417	\$37,900
d. Curtail Fraudulent Refund Crimes							22	\$10,772			22	\$10,772
e. Combat Abusive Transactions by Entities with Special Tax Status			58	\$11,957					19	\$2,503	77	\$14,460
SUBTOTAL, INCREASES			908	\$151,315	711	\$97,906	22	\$10,772	32	\$4,639	1,672	\$264,632
4. TOTAL ADJUSTMENTS TO BASE:												
a. Labor Annualization		\$2,082		\$55,781		\$27,955		\$10,817		\$3,895		\$100,530
b. Labor MCL (Includes FECA transfer to TIGTA of \$201)		\$960		\$25,570		\$12,727		\$4,950		\$1,735		\$45,942
c. Non-Labor MCL (Includes adjustment to cover HITCA full costing of \$202)		\$958		\$17,281		\$10,574		\$3,315		\$1,593		\$33,721
d. Transfer ICDE funding from Justice							329	\$55,584			329	\$55,584
SUBTOTAL, TOTAL ADJUSTMENTS TO BASE:		\$4,000		\$98,632		\$51,256	329	\$74,666		\$7,223	329	\$235,777
TOTAL CHANGES, BUDGET AUTHORITY		\$4,000	785	\$234,261	792	\$164,848	351	\$85,438	32	\$11,862	1,959	\$500,409

Numbers may not add due to rounding.

SUMMARY OF PROGRAM INCREASES AND DECREASES (EXHIBIT 2a)

Tax Administration and Operations

For FY 2006, the Internal Revenue Service Budget Request includes a total increase of \$461,885 and 576 FTE.

TOTAL REQUESTED PROGRAM CHANGE\$130,429 K / 247 FTE

1. Base Reengineering.....-\$230,096 K / -2,230 FTE

a. Taxpayer Service Reengineering (Assistance, Outreach, and Processing)-\$134,103K / -1,205 FTE

IRS is working aggressively to improve productivity and achieve cost savings. Efforts such as expanded use of pay-for-performance incentives, legislative proposals to accelerate e-file growth, competitive sourcing, and reducing dependence on walk-in taxpayer service will save \$134,103 K in taxpayer service programs in 2006.

b. Savings from Increased Individual Master File (IMF) e-Filing (Processing) -\$7,700 K / -190 FTE

This savings results from the reduction in Individual paper returns. In FY 2006, Individual paper return filings are projected to decrease by 4 million as a direct result of the increase in electronic filing. By making technological advances and increasing e-file marketing strategies, the IRS will move toward meeting its long-term goal of 80 percent returns filed electronically. Individual e-filing rates have risen from 30.8 percent in FY 2001 to 47 percent in FY 2004. The projected individual e-file rate in FY 2006 is 55 percent. In FY 2006, Individual paper return filings are projected to decrease by 4 million as a direct result from the increase in electronic filing. The savings are based on the projected decrease of paper returns and processing costs for electronically filed individual returns in Submission Processing Centers. (See offsetting reinvestment in 2.d.)

**c. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations
(Examination and Collection)....-\$66,654 K / -649 FTE**

Case Processing activities support examination, collection and lien processing programs. This initiative is a continuation of the implementation to consolidate Case Processing operations currently performed at over 80 field locations into four campus sites (Cincinnati, Memphis, Ogden and Philadelphia). These important processes will be standardized, efficiencies implemented and

Internal Revenue Service

expertise enhanced to improve service to customers. Consolidation will ultimately allow the IRS to respond to peak demand and better manage our workload.

This FY 2006 decrease represents the remaining actions to release personnel currently performing Case Processing functions in the field offices (1,214 positions), as these operations are centralized to campus locations (850 positions). The projected savings from this initiative will be reinvested to fund the annualization of all campus personnel hired in FY 2005. The net savings expected, after the reinvestment to annualize the campus hires, in FY 2006 will be realigned to place 270 FTE in front-line compliance positions and focus on Small Business and Self Employed (SBSE) priorities. This will promote uniform delivery of consistent work products throughout the organization as well. (See offsetting reinvestment in 2.b.)

Examination.....	-\$52,708 K / -450 FTE
Collection.....	-\$13,946 K / -199FTE

With the required funding in FY 2005, both field close down and campus build out efforts, associated with the consolidation of Case Processing support activities, are expected to be completed in FY 2006, saving 135 FTE for redirection to front-line Examination operations.

d. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations (Collection).....-\$14,928 K / -134 FTE

Insolvency operations protect the government's interest in bankruptcy proceedings. The Insolvency consolidation will retain professional employees in all existing offices while centralizing and standardizing clerical and para-professional processes. This initiative continues to consolidate the administrative activities, which involve clerical and para-professional field positions into the Philadelphia campus.

The effort to centralize and standardize Insolvency work streams improves efficiency and customer service. Streamlined operations will increase efficiencies, eliminate duplication of effort and provide clarity and convenience for customers. Standardized workloads that correspond with appropriate job categories will provide improved work products with quality reviews.

The work performed by Insolvency clerks and para-professionals at the Philadelphia campus includes all initial case processing and most mail processing, payment posting for most chapters, and routine case processing actions on Chapter 7 and Chapter 13 cases and monitoring compliance. Beyond the centralized campus reinvestment, the net resource savings generated in FY 2006 will be redirected to Field Collection to fund additional Revenue Officers. These employees will produce 12,000 additional collection closures in FY 2006. Business

Internal Revenue Service

results will improve through increased enforcement efforts as additional resources are focused on critical high-risk compliance programs. (See offsetting reinvestment in 2.c.)

IRS is working aggressively to improve productivity and achieve cost savings. Efforts such as expanded use of pay-for-performance incentives, legislative proposals to accelerate e-file growth, competitive sourcing and reducing dependence on walk-in taxpayer service will save \$134 million in taxpayer service programs in 2006.

e. Detect and Deter Corporate Non-Compliance (Examination).....-\$6,711 K / -52 FTE

The IRS, by using improved issue management and risk assessment strategies for examining corporations, expects to realize productivity improvements in FY 2006. (See offsetting reinvestment in 2.d.)

2. Program Reinvestments\$95,893 K / 805 FTE

a. Increase Returns Processing Efficiencies (Processing).....\$7,600 K / 12 FTE

The IRS initiative to increase electronic filing will continue to have a significant impact on Submission Processing Centers as Individual Master File (IMF) paper volumes decline. This initiative reinvests savings from processing efficiencies (see offsetting base reengineering 1.b.) to enable IRS to continue its consolidation of individual returns processing into fewer Submission Processing sites. The processing of individual returns will be more efficient, resulting in future elimination of returns to the Submission Processing sites. This IRS initiative to increase electronic filing will continue to have a significant impact on Submission Processing Centers as individual paper volumes decline.

The processing of individual returns will be more efficient, resulting in the elimination of returns transshipments among the remaining Submission Processing sites. The closure of the Memphis Submission Processing site in FY 2006 will enable the IRS to realign resources and workload.

Funds will cover the costs associated with the ramp down of the Memphis Submission Processing Site and include:

- Staff separation costs (e.g., buyouts, severance pay)
- Real estate restacking costs (property and space realignment)
- Equipment and furniture relocation

- Costs related to information technology equipment

This initiative relates to IRS' operational priority to implement planned Submission Processing strategies, including the workload requirements of paper operations to meet increases in electronic submission and cost efficient improvement opportunities. The IRS post-of-duty offices in the surrounding area will be consolidated at the Memphis Campus. (See offsetting savings in 1.b.)

**b. Consolidate Case Processing Activities to Maximize Resources Devoted to Front-Line Operations
(Examination and Collection).....\$66,654 K / 585 FTE**

The redesign of Case Processing is aimed at enhancing overall performance, improving business results and promoting strategic priorities. This reinvestment initiative was approved in FY 2005 to provide the required resources to consolidate the case processing operations that would save resources to increase enforcement actions and IRS presence.

Benefits from the centralization of Case Processing will begin to occur in FY 2006. The consolidation effort improves consistency; allows for standardization, training, and quality review; provides flexibility to manage workload; and offers employee specialization and career path opportunities. It will also allow the IRS to support the redesigned organization on-site through help-desk support, technical assistance, and quality review. The reduced staffing levels necessary to maintain Case Processing will create resource savings for redirection to front-line enforcement in FY 2006.

As a result, the IRS can more effectively address compliance issues and mitigate risk associated with improper tax strategies that undermine the tax system and impact taxpayers' vision of fair and equitable treatment. Business results will improve through increased audits and collection activity. (See offsetting savings in 1.c.)

Examination.....\$37,022 K / 327 FTE

Centralized Case Processing work in the campuses includes examination support for closing examination cases, Examination Quality Measurement System (EQMS) sampling, and Large and Mid-Size Business Quality Measurement System (LQMS) sampling. Beyond this campus reinvestment, net savings from this initiative will fund additional revenue *a*gents to address complex non-compliance issues and maintain coverage of tax returns requiring the highest skill levels. The additional 135 revenue agents will generate 3,000 additional Field Exam closures.

Internal Revenue Service

Collection..... \$29,632 K / 258 FTE

The redesigned Case Processing operation in the campuses includes collection support for processing adjustments; Manually Monitored Installment Agreements/In Business Trust Fund – Installment Agreements and closed cases; and Lien Processing for Notice of Federal Tax liens and requests for payoffs. Beyond the centralized campus reinvestment, the net resource savings generated in FY 2006 will be redirected to hire additional revenue officers to work complex paying and filing cases that involve high-risks to the tax system. The additional 135 revenue officers will close an additional 29,000 cases.

c. Consolidate Insolvency Activities to Maximize Resources Devoted to Front-Line Operations (Collection)\$14,928 K / 156 FTE

Like Case Processing consolidation, this reinvestment initiative was approved in FY 2005 to provide the required resources to centralize the Insolvency administrative processes. Through this reengineering initiative, the Service will create efficiencies that will allow us to devote more people to Field Collection positions and strengthen tax enforcement activities while maintaining customer taxpayer service.

Benefits from centralized insolvency will occur in FY 2006 and years forward. The consolidation improves efficiency in processing and service to customers and addresses internal challenges related to the need for bankruptcy processing to be performed in both a timely and accurate manner. Specifically, centralized insolvency will improve taxpayer service through the creation of a toll-free telephone service to answer questions from taxpayers who have filed or are contemplating filing bankruptcy. Second, hours of service will be extended to both taxpayers and employees, because the centralized site will operate day and swing shifts. Third, consolidation will also provide taxpayers with a single point of contact for mail processing.

The work performed by insolvency clerks and para-professionals at the Philadelphia campus include all initial case processing and most mail processing, payment posting for most chapters, and routine case processing actions on Chapter 7 and Chapter 13 cases and monitoring their compliance. Beyond the centralized campus reinvestment, the net resource savings generated in FY 2006 will be redirected to Field Collection to fund the additional revenue Officers. These employees will produce 12,000 additional collection closures in FY 2006. Business results will improve through increased enforcement efforts as additional resources are focused on critical high-risk compliance programs. (See offsetting savings in 1.d.)

d. Detect and Deter Corporate Non-Compliance (Examination)\$6,711 K / 52 FTE

By using improved issue management and risk assessment strategies for examining corporations, savings will be realized and reinvested in frontline enforcement activities. This will provide a pipeline of skilled and knowledgeable agents for addressing complex high-risk issues, tax shelter promoter compliance, and for ensuring compliance among tax professionals. (See offsetting base reengineering in l.e.)

3. Program Increases\$264,632 K / 1,672 FTE

**a. Attack Corrosive Non-Compliance Activity Driving the Tax Gap
(Examination, Collection, and Regulatory Compliance)\$149,700 K / 920 FTE**

The concern over the proliferation of abusive trusts and shelters (including offshore credit cards) and organized tax resistance requires new and innovative approaches to combat noncompliance and restore and renew the IRS workforce. Traditional approaches aimed at maintaining audit coverage and managing growing case inventories have failed to adequately address the complex enforcement issues associated with high-income individuals who use structured transactions and flow-through entities (e.g., partnerships) to conceal tax liability and avoid payment of taxes owed. Further, an increasingly global economy continues to impact the world's taxing authorities, requiring IRS to devise strategies to assure that the worldwide revenues due the United States are assessed and collected.

This enforcement initiative provides resources for IRS compliance programs to increase coverage of the growing number of high-risk compliance problems and to address components of the tax gap. It proposes a funding increase across all major domestic and international compliance programs to leverage new workload selection systems and case building approaches from continuing reengineering efforts.

The largest portion of the overall tax gap deals with the underreporting of tax. The resources requested in this initiative will provide a balanced approach to compliance problems associated with the tax gap components of Reporting, Filing, and Payment Compliance.

Contributing to this growing problem is the declining number of enforcement personnel and the suspected escalating amount of noncompliance. Each year taxpayers fail to pay tax due and contribute \$10 billion toward the IRS Accounts Receivable.

Additionally, the potentially collectible tax has increased an average of 14.5 percent annually since September 2000 and is estimated to increase \$5 billion in FY 2006. Inventories of collectible accounts continue to increase even as we improve productivity through management initiatives and reengineering efforts.

Internal Revenue Service

This initiative will contribute to the reduction of reporting noncompliance by providing personnel to bolster coverage and presence in this area. Increased staffing will also provide enhanced compliance coverage of some 4.6 million Americans living abroad.

Examination..... \$67,002 K / 382 FTE

This initiative will result in the following program improvements:

- An increase of 240 revenue agent FTE will provide coverage of additional field and international examinations of investor returns, resulting in millions in additional revenue.
- An increase of 50 tax compliance officer FTE will audit an additional 3,000 domestic and international returns in FY 2006, resulting in millions of additional collections.
- An increase of 46 correspondence examiner FTE will improve the audit coverage rate and produce 25,600 additional audits and millions in additional collections.
- An increase of 38 Automated Underreporter (AUR) tax examiner FTE to match return information with third-party data will generate millions in additional revenue.
- An additional 8 FTE will provide support for information technology management, shared services, administrative legal services, and administrative assistance.

Collection..... \$81,125 K / 529 FTE

This initiative will result in the following program improvements:

- An increase of 260 revenue officer FTE will produce 53,600 more closures in FY 2006 and generate significant revenue.
- An increase of 258 customer service representative FTE for Campus Collection programs will result in the resolution of 47,000 additional accounts through the Automated Collection System and 90,000 more case closures through the Automated Substitute for Returns program in FY 2006. Included are staffing increases for collection notices and for IRS follow-up on referrals from Private Collection Agencies (PCA's).
- An additional 11 FTE will provide support for information technology management, shared services, administrative legal services, and administrative assistance.

Internal Revenue Service

Regulatory Compliance.....\$1,573 K / 9 FTE

The primary focus of this portion of the initiative is for IRS' Chief Counsel to support increased focus on offshore credit cards, abusive schemes, technical tax shelters, and high-income taxpayers. This is accomplished through increasing published guidance and accelerating the issuance of notices identifying abusive tax avoidance transactions and "listed" transactions. This initiative crosses all major compliance programs and is aimed at reducing compliance risks and protecting the integrity of tax administration. The goal is to resolve tax law issues before returns are filed, increase taxpayer voluntary compliance and speed issue resolution.

b. Deter and Detect Corporate Non-Compliance (Examination and Regulatory Compliance)\$51,800 K / 236 FTE

This initiative will allow the IRS to address complex, high-risk issues in abusive tax avoidance transactions, promoter activities, corporate fraud, and aggressive domestic and off-shore transactions, resulting in increased corporate and high-income return closures and audit coverage. This initiative strengthens enforcement and corporate governance for the largest corporate taxpayers by providing resources to combat corrosive non-compliance. It will enable the Service to attack complex abusive tax-avoidance transactions on a global basis and those who promote their use. Additionally, critical post-filing support provided by outside experts will increase the resolution of issues at the field examination level, reducing taxpayer burden and increasing the credibility of the Service's positions on the most complex and highest impact issues sent to court.

Examination..... \$51,237 K / 233 FTE

The additional resources in FY 2006 will be used for addressing corrosive corporate non-compliance. It will improve the corporate audit coverage rate for corporations with assets of \$10 million to \$250 million, from 12.2 percent in FY 2005 to 15 percent in FY 2010, and help the Service close 67 percent more business returns in FY 2010, compared to the number of business returns closed in FY 2005 (from 11,896 in FY 2005 to 19,906 in FY 2010). In addition, Corporate Coverage Rates for returns in excess of \$10 million will increase from 16.3 percent in FY 2005, to 18.2 percent in FY 2007, and 18.9 percent in FY 2010.

Regulatory Compliance.....\$563 K / 3 FTE

The primary focus of this portion of the initiative is to provide Counsel the resources to identify issues requiring published guidance, including responding to emerging Abusive Tax Avoidance Transaction (ATAT) issues with the appropriate guidance.

The initiative is designed to discourage and deter non-compliance, and its goals include resolving tax law issues before returns are filed, increasing the speed of issue resolution, and increasing taxpayer voluntary compliance.

c. Increase Individual Taxpayer Compliance (Examination and Collection).....\$37,900 K / 417 FTE

This initiative bolsters enforcement presence to address widespread concerns regarding the erosion of the IRS' enforcement presence and the continued growth in non-compliance reported by the Treasury Inspector General for Tax Administration (TIGTA), the Government Accountability Office (GAO), Congress and the media. This initiative links IRS Compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It is comprised of four components aimed at addressing the tax gap: identifying and implementing actions to address non-compliance with filing requirements; increasing Automated Underreporter resources to address the reporting compliance tax gap; increasing audit coverage; and expanding collection work in Taxpayer Assistance Centers (TACs).

Examination.....\$21,119 K / 235 FTE

The Servicewide compliance audit coverage for FY 2003 is approximately .8 percent. Of the national gross tax gap estimated to be roughly \$300 billion, the Reporting Compliance portion is estimated to be the largest at roughly \$248 billion or 80 percent. (Note: these estimates are based largely on outdated data collected in the 1980s.) The number of taxpayers who misreport their income is approximately 5.1 million. The Automated Underreporter (AUR) currently handles approximately 1.8 million cases, resulting in an untouched gap of 3.3 million cases. The FY 2006 initiative investment would, over a two-year period increase non-EITC audit coverage by 81,800 cases and increase verification of income, through the information matching program, by 362,000 cases. An increase in staffing resources will enable increased audit coverage and decrease the overall reporting tax gap. An increase in audit coverage will also have a positive impact on voluntary compliance.

Collection.....\$16,781 K / 182 FTE

IRS has experienced growth in the number of non-filers, with approximately 5.6 million taxpayers failing to file tax returns in 2003. Of these, only 1.6 million taxpayers can currently be selected for potential contact due to resource constraints. This initiative provides resources for compliance programs to increase coverage of the growing number of high-risk compliance problems and to address a segment of the tax gap. The FY 2006 initiative investment would, over a two-year period: increase the number of returns secured by 220,000 and increase the number of Field Assistance collection cases worked by 7,337.

d. Curtail Fraudulent Refund Crimes (Investigations)\$10,772K / 22 FTE

This initiative attacks the increased questionable refund and return preparer fraud identified through expanded operations of the Fraud Detection Centers located on IRS campuses. Fraudulent refund schemes are one of the most serious threats to voluntary compliance and an IRS investigative priority. The number of false claims for refund has tripled since 2000 and is expected to again double by 2008. Additional investigative resources are needed to combat this threat. In addition, access to the Department of Health and Human Services' National Directory of New Hires will be used to more efficiently identify fraudulent refund crimes by validating W-2 information on Earned Income Tax Credit claims. When the Administration's legislative proposal is passed, this database will also be used for non-EITC returns. This will reduce taxpayer burden by releasing legitimate refunds promptly, streamlining the investigative process and ensuring the integrity of the tax system.

**e. Combat Abusive Transactions by Entities with Special Tax Status
(Examination and Regulatory Compliance)\$14,460 K / 77 FTE**

This initiative strengthens the IRS' ability to address its strategic objective to deter abuse within tax-exempt and governmental entities by third parties for tax avoidance or other unintended purposes. With the tools and resources provided by this initiative, IRS will improve its ability to identify compliance risks and significantly expand coverage of its regulated communities. Improved access to information will help focus on the most egregious cases of non-compliance and identify compliance risks sooner, reducing burden on compliant customers and enabling the development of new interventions to curtail the growth of abusive transactions before they spread. Funding for this initiative will support the following activities:

- Initiating examinations more promptly after the detection of a risk and equipping agents with better information prior to their first contact with taxpayers.
- Safeguarding compliant customers from unscrupulous promoters through earlier detection of abusive schemes and heightened efforts to prevent their proliferation.
- Increasing IRS vigilance to ensure that the assets of tax-exempt organizations are put to their intended tax-preferred purpose and not misdirected to fund terrorism or for private gain, including more exhaustive review of questionable exemption applications and increased technical support to the examination process.

Examination.....\$11,957 K / 58 FTE

This initiative will expand coverage while also expediting and focusing the examination process. Better identification of compliance risks will reduce the burden of the examination process on compliant customers and help IRS stop abuses before they

Internal Revenue Service

proliferate. New case-building capabilities will also expedite the examination process, reducing the lag between customer filings and examinations, and giving agents a jump start on their examinations by equipping them with more complete information before their first contact with the taxpayer.

Regulatory Compliance.....\$2,503 K / 19 FTE

The first compliance contact with every new exempt organization is through the determination process, whereby IRS rules on the tax-exempt status of the requesting organization. This initiative provides additional resources to ensure that a robust determination process is maintained and sufficient resources are available to address the special compliance risks associated with the most complex cases. In addition, the initiative will ensure that adequate technical support is provided for the most egregious cases under examination. These actions will reassure stakeholders and the public of the integrity of the tax-exempt community.

TOTAL REQUESTED OTHER CHANGES.....\$331,456 K / 329 FTE

1. Adjustments Necessary to Maintain Current Levels.....\$275,872 K / 0 FTE

Funds are requested for the pay raise and annualization of \$220,909 K and non-labor items, \$55,367 K. It also includes a technical adjustment to Treasury Inspector General for Tax Administration (TIGTA) of \$201 K for its share of unemployment cost currently funded by the IRS. The IRS is submitting a Performance-Based budget in a new budget structure. All support costs are distributed throughout the operational activities. Therefore, due to this full costing of the IRS budget, and the fact that there is labor dollars in HITCA, \$202 K is distributed to HITCA to accommodate the full costing of the budget within the new budget structure.

2. Transfer from the U.S. Department of Justice.....\$55,584K / 329 FTE

The FY 2006 budget transfers the IRS' portion of the Interagency Crime and Drug Enforcement (ICDE) appropriation from the Department of Justice in FY 2006. Of this amount, \$53,913 K is the 2005 enacted level transferred from Justice and \$1,671 K is for maintaining current levels. These resources will be applied to the detection, investigation, and prosecution of individuals involved in organized crime drug trafficking. This includes the coordination and cooperation with Federal, State and local law enforcement agencies engaged in the investigation and prosecution of individuals involved in organized crime drug trafficking.

EXPLANATION OF BUDGET ACTIVITY

ASSISTANCE

The Assistance activity provides resources to taxpayers with various tax-related questions and resolves account inquiries via correspondence, face-to-face meetings, telephone calls and electronic communications. Resources provided by this activity enable taxpayers to fulfill their tax obligations timely and accurately, while minimizing taxpayer burden. The Taxpayer Advocate Service (TAS) helps taxpayers resolve problems with the IRS and recommends changes to prevent problems. Taxpayers are able to obtain answers to questions, resolve account inquiries and make sure of other services, including Volunteer Income Tax Assistance (VITA), Low-Income Taxpayer Clinics, etc. This activity also supplies forms and other published documents.

Program Activities:

- **Electronic/Correspondence** - Assistance and education services provided via telephone, paper, and electronic correspondence
- **Field** - Assistance, education, and compliance services for taxpayers including need-based return preparations and inquiries

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (TABLE 3.1)							
(Dollars in Thousands)							
ASSISTANCE							
ASSISTANCE BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F4A)							
Total Operating Level (direct and reimbursable)	\$1,586,955	\$1,715,277	\$1,773,688	\$1,859,217	\$1,835,173	\$1,905,401	\$1,882,077
Total FTE (direct and reimbursables)	21,715	22,330	22,092	22,120	22,267	21,179	20,541
Electronic/Correspondence							
Direct Resources/User Fees	\$1,345,714	\$1,457,922	\$1,495,423	\$1,579,077	\$1,530,370	\$1,591,667	\$1,614,323
Direct FTE	18,693	19,266	18,929	18,983	19,037	17,919	17,895
Reimbursables	\$12,352	\$19,301	\$16,321	\$25,744	\$25,744	\$24,690	\$24,690
Reimbursables FTE		367	294	378	378	378	378
Field							
Direct Resources/User Fees	\$228,431	\$237,320	\$261,157	\$280,113	\$278,250	\$288,245	\$242,266
Direct FTE	3,022	2,693	2,865	2,756	2,849	2,879	2,265
Reimbursables	\$458	\$735	\$788	\$809	\$809	\$798	\$798
Reimbursables FTE		4	4	3	3	3	3
Assistance Performance Measures							
Customer Service Representative Level of Service Oe	56.4%	68%	80%	83%	87%	82%	82%
Customer Contacts per Staff Year E (new)	n/a	n/a	n/a	n/a	n/a	7,261	7,283
Percent of Eligible Taxpayers Who File for EITC Ot	n/a	n/a	n/a	80%	80%	80%	82%
Customer Accuracy - Toll Free ¹							
Customer Accuracy - Toll-Free Tax Law	n/a	n/a	82%	85%	80%	82%	83.5%
Customer Accuracy - Toll-Free Accounts	n/a	n/a	88%	89%	89%	89.8%	91.0%
Field Assistance Accuracy of Tax Law Contacts	n/a	79%	75%	80%	75%	Discontinued	Discontinued
Customer Accuracy - Customer Accounts Resolved	n/a	n/a	87%	89%	87%	Discontinued	Discontinued
Dollar Value of EITC Claims Paid in Error Oe	n/a	n/a	n/a	n/a	n/a	Discontinued	Discontinued
Toll-Free Customer Satisfaction Oe	59%	56%	95%	93%	95%	Discontinued	Discontinued
Field Assistance Customer Satisfaction Oe	90%	86%	87%	89%	89%	Discontinued	Discontinued
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure							

1/ Composite measure under development for FY 2005

Numbers may not add due to rounding.

Internal Revenue Service

Summary of Reimbursable Resources (TABLE 3.2)

Assistance
(Dollars in Thousands)

Assistance	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$46		\$46		\$46	
IMF-Debtor Master File	\$14,048	249	\$12,983	249	\$12,983	249
FEMA-Charley	\$6,177	73	\$6,177	73	\$6,177	73
Transportation Equity Act-21	\$793		\$793		\$793	
Debtor Master File	\$1,794	38	\$1,794	38	\$1,794	38
TCC-Customs Support	\$436	5	\$436	5	\$436	5
Treasury Vignette License	\$280		\$280		\$280	
DTS/DOTTS/VMS	\$225		\$225		\$225	
Treasury Training Contract	\$204		\$204		\$204	
Sales of Autos	\$0		\$0		\$0	
Trinidad	\$101	1	\$101	1	\$101	1
Treasury Communication Systems (TCS)	\$200	2	\$200	2	\$200	2
DIFSLA	\$197	1	\$197	1	\$197	1
Development of the Program of Requirements	\$172	-	\$172		\$172	
Other	\$1,879	14	\$1,879	14	\$1,879	14
Total: Assistance	\$26,553	381	\$25,488	381	\$25,488	381

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

ASSISTANCE

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

The IRS has significantly expanded its assistance efforts to provide customers with the information they need regarding the tax law, Earned Income Tax Credit (EITC), compliance, and tax return preparation (including e-file). The IRS improved quality in most areas while maintaining productivity levels. There was also a significant increase in taxpayer assistance contacts through both media and non-media, which contributed to the significant increase in returns prepared and e-filed. The IRS prepared 1.9 million tax returns through its volunteer programs, an increase of 25 percent over the number of returns prepared during the same period last year.

- 87 percent of taxpayers calling IRS phone assistance sites reached an assistor, an increase of 7 percent from FY 2003
- 80 percent of eligible taxpayers filed for EITC

FY 2005 Performance Plan

To maintain high performance levels, the IRS plans to gather data on high-achieving business processes for site operations and training to ensure uniform treatment of taxpayer issues. For example, the IRS will test Ogden Accounts Management Center's best practice "workpaths" for IMF processing across all Accounts Management sites. Additionally, the IRS plans to increase the scope and availability of services offered electronically; for example, provide for the electronic filing and processing of Form 8822, Change of Address. Specific FY 2005 performance goals are as follows:

- Maintain the high level of FY 2004 performance, including taxpayer self-service options
- 82 percent Customer Service Representative (CSR) Level of Service
- 7,261 Customer Contacts per Staff Year
- 80 percent of eligible taxpayers will file for EITC
- 82 percent toll-free customer accuracy

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

ASSISTANCE

FY 2006 Proposed Program Performance

The IRS will continue assistance and outreach efforts to provide taxpayers with necessary tax information, improve quality assistance while maintaining productivity levels, and provide timely volunteer training materials and support for the volunteer return preparation program. Specific FY 2006 performance goals follow:

- Customer Service Representative (CSR) Level of Service for FY 2006 is projected at 82 percent
- Customer Accuracy Toll-Free Tax Law for FY 2006 is estimated to be 83.5 percent
- Customer Accuracy Toll-Free Accounts for FY 2006 is estimated to be 91 percent
- 7,283 Customer Contacts per Staff Year are estimated for FY 2006

The IRS is eliminating redundancies through the consolidation of Customer Account Services (CAS), the program is merging into one Operating Division. The IRS is implementing “best practice” techniques throughout the consolidated sites. In addition, the IRS is modifying hours of service in order to address higher telephone call volumes during peak hours. This will not impact performance.

EXPLANATION OF BUDGET ACTIVITY

OUTREACH

This activity funds proactive programs for taxpayers, businesses, non-profit organizations, tax practitioners and others to ensure that taxpayers understand their tax obligations and have the information and materials necessary to fulfill their responsibilities. These resources are used to develop understandable notices, produce tax forms and publications, provide media services and develop published information for the visually impaired. Outreach manages educational programs such as Tax Counseling for the Elderly and Volunteer Income Tax Assistance, provides multi-lingual services and develops stakeholder partnerships.

Program Activities:

- **Publications and Media** - Production of comprehensible forms, publications, and notices as well as providing of media services to taxpayers
- **Taxpayer Education & Communication** - Development and improvement of forms and publications., managing education programs, and stakeholder partnerships

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (TABLE 3.1)							
(Dollars in Thousands)							
OUTREACH							
OUTREACH BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F4A)							
Total Operating Level (direct and reimbursable)	\$595,955	\$522,923	\$547,003	\$553,319	\$554,344	\$516,013	\$481,094
Total FTE (direct and reimbursables)	2,412	2,869	3,024	2,880	3,215	2,481	1,914
Publications and Media							
Direct Resources/User Fees	\$2,974	\$311,608	\$312,749	\$304,973	\$310,579	\$301,201	\$285,009
Direct FTE		994	999	967	1,096	826	525
Reimbursables		\$618	\$560	\$682	\$682	\$606	\$606
Reimbursables FTE		1	1	1	1	1	1
Taxpayer Education & Communication							
Direct Resources/User Fees	\$590,305	\$210,318	\$233,012	\$248,344	\$241,880	\$213,003	\$194,275
Direct FTE	2,412	1,873	2,019	1,904	2,110	1,647	1,380
Reimbursables	\$2,677	\$379	\$683	\$1,203	\$1,203	\$1,203	\$1,203
Reimbursables FTE		2	5	8	8	8	8
Outreach Performance Measures							
Timeliness of Critical Filing Season Tax Products to the Public Oe (new)	n/a	n/a	n/a	n/a	n/a	80%	85%
Timeliness of Critical Other Tax Products to the Public Oe (new)	n/a	n/a	n/a	n/a	n/a	80%	85%
Key: Oe - Outcome Measure							

Numbers may not add due to rounding.

Internal Revenue Service

Summary of Reimbursable Resources (TABLE 3.2)

Outreach
(Dollars in Thousands)

Outreach	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$261		\$261		\$261	
IMF-Debtor Master File	\$243	0	\$243	0	\$243	0
FEMA-Charley	\$2		\$2		\$2	
FinCEN-Anti-Money Laundering Act	\$702	6	\$626	6	\$626	6
Transportation Equity Act-21	\$103		\$103		\$103	
Debtor Master File	\$32		\$32		\$32	
TCC-Customs Support	\$57	1	\$57	1	\$57	1
Treasury Vignette License	\$36		\$36		\$36	
DTS/DOTTS/VMS	\$29		\$29		\$29	
Treasury Training Contract	\$27		\$27		\$27	
Treasury Communication Systems (TCS)	\$26	0	\$26	0	\$26	0
DIFSLA	\$26	0	\$26	0	\$26	0
Development of the Program of Requirements	\$22		\$22		\$22	
Other	\$319	2	\$319	2	\$319	2
Total: Outreach	\$1,885	9	\$1,809	9	\$1,809	9

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

OUTREACH

Evaluation of FY 2005 Performance compared with FY 2004

FY 2004 Performance

The IRS timely delivered volunteer training materials and training support to partners to ensure volunteers were trained and certified to support the volunteer return preparation program. In FY 2004, SPEC and its partners did reach over 262 million taxpayer-outreach contacts. This total included both media (e.g., newspapers, magazines, radio, and television) and non-media (e.g., seminars, training, etc.) contacts. SPEC reports non-media contacts (72 million in FY 2004) in its monthly performance report. Media contacts, which totaled over 190 million in FY 2004, are tracked but are not included in SPEC's monthly reporting. Topics covered during outreach efforts include Earned Income Tax Credit (EITC), tax law/compliance, availability of services, and e-file. This is indicative of the IRS' effort to move toward leveraged or indirect contact as the primary means to assist taxpayers. Every opportunity is taken to utilize our leveraged partners in order to provide effective access and support to taxpayers.

- 76 percent Timeliness of Tax Products to the Public

FY 2005 Performance Plan

To improve the quality and timeliness of taxpayer contacts, the IRS will continue to simplify tax forms and publications and make them more suitable for use on computer-based systems. Efforts will continue to ensure that all published products are accessible in electronic formats. In addition, the IRS will place employees on-site at print vendors' facilities to monitor the quality and timeliness of printed tax products. Every opportunity will be taken to utilize our leveraged partners in order to provide effective access and support to taxpayers.

- 80 percent Timeliness of Critical Filing Season Tax Products to the Public
- 80 percent Timeliness of Critical Other Tax Products to the Public

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

OUTREACH

FY 2006 Proposed Program Performance

The IRS will continue efforts to improve the quality and timeliness of taxpayer contacts, simplify tax forms and publications, expand computer-based systems, and ensure that all published products are accessible in electronic formats. The IRS will strive to achieve savings while seeking to maintain performance. Specific FY 2006 performance goals follow:

- 85 percent Timeliness of Critical Filing Season Tax Products to the Public
- 85 percent Timeliness of Critical Other Tax Products to the Public

EXPLANATION OF BUDGET ACTIVITY

PROCESSING

The processing activity includes resources to track, process and resolve all electronic and paper returns. This activity also funds the issuance of refunds, payments and tax notices, and the receipt and processing of the information returns that permit the IRS to match data to that provided on a taxpayer's return.

Program Activities:

- **Submissions Processing** - Staffing and direct support for processing tax returns and supplemental documents, and for issuing notices and refunds

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (TABLE 3.1)							
(Dollars in Thousands)							
PROCESSING							
PROCESSING BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
<u>Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F4A)</u>							
Total Operating Level (direct and reimbursable)	\$1,350,239	\$1,347,093	\$1,321,337	\$1,359,673	\$1,284,376	\$1,320,948	\$1,340,670
Total FTE (direct and reimbursables)	20,641	19,217	17,834	17,564	17,187	15,841	15,662
Submissions Processing							
Direct Resources/User Fees	\$1,343,354	\$1,339,755	\$1,313,706	\$1,359,664	\$1,274,907	\$1,311,859	\$1,331,581
Direct FTE	20,641	19,093	17,697	17,418	17,041	15,695	15,516
Reimbursables	\$6,885	\$7,337	\$7,631	\$9,469	\$9,469	\$9,089	\$9,089
Reimbursables FTE		124	137	146	146	146	146
<u>Processing Performance Measures</u>							
Percent Individual Returns Processed Electronically Oe	31%	36%	40%	45%	47%	51%	55.0%
Percent Business Returns Processed Electronically Oe	n/a	n/a	n/a	19.6%	17%	17.0%	17.9%
Key: Oe - Outcome Measure							

Numbers may not add due to rounding.

Summary of Reimbursable Resources (TABLE 3.2)
Processing
(Dollars in Thousands)

Processing	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$5,953	133	\$5,573	133	\$5,573	133
IMF-Debtor Master File	\$597	3	\$597	3	\$597	3
FEMA-Charley	\$13		\$13		\$13	
Transportation Equity Act-21	\$612		\$612		\$612	
Debtor Master File	\$26		\$26		\$26	
TCC-Customs Support	\$336	4	\$336	4	\$336	4
Treasury Vignette License	\$216		\$216		\$216	
DTS/DOTTS/VMS	\$174		\$174		\$174	
Treasury Training Contract	\$157		\$157		\$157	
Treasury Communication Systems (TCS)	\$154	2	\$154	2	\$154	2
DIFSLA	\$152	1	\$152	1	\$152	1
Development of the Program of Requirements	\$133		\$133		\$133	
Other	\$945	4	\$945	4	\$945	4
Total: Processing	\$9,469	146	\$9,089	146	\$9,089	146

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

PROCESSING

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

The IRS delivered another successful filing season, expanding assistance and outreach efforts to provide customers with sufficient information regarding tax law, Earned Income Tax Credit, and compliance. The IRS provided accurate and timely processing of tax returns. Overall quality improved while maintaining productivity levels. Paper returns were down 11 percent and e-filed returns increased 16 percent over the last year, surpassing FY 2004 goals. The IRS significantly decreased the number of returns prepared at Taxpayer Assistance Centers due to efforts to move toward leveraged or indirect contact as the primary means to assist taxpayers.

- Total e-file volume was 61.3 million or 47 percent of total individual returns
- E-filed returns increased 16 percent over last year, surpassing FY 2004 goal
- 98.3 percent Refund Timeliness
- 3.6 percent Deposit Error Rate

FY 2005 Performance Plan

The IRS will continue to plan and manage effective programs, activities, and resources to ensure a successful filing season. The IRS will continue to work with private industry to expand low-cost Internet filing options and finish deployment of e-Services to include additional customer access to electronic transcript delivery, disclosure authorization, and electronic account resolution. In addition, the IRS will further enhance web site functionality with new features such as improved search capabilities, tax applications and/or calculators, and various language presentations.

- 51 percent Individual Returns Processed Electronically
- 17 percent of Business Returns Processed Electronically

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

PROCESSING

FY 2006 Proposed Program Performance

IRS will continue to enhance e-file processing by replacing the Memphis e-file site with Fresno, aligning e-file submissions from each state to a processing center that is no more than one time zone away, providing practitioners with daily cut-offs based on their local time, balancing the volume of e-file returns among the five sites as well as between the computing sites in Memphis and Martinsburg, and modifying the internal processing schedule to increase the timeliness and frequency of acknowledgement of return delivery to transmitters. Due to the continued shift from paper to e-file, the IRS expects to maintain performance levels and achieve savings. Specific FY 2006 performance goals follow:

- 55 percent of Individual Returns Processed Electronically
- 17.9 percent of Business Returns Processed Electronically

EXPLANATION OF BUDGET ACTIVITY

RESEARCH

The research activity includes analyses of IRS' operations and performance, economic and demographic comparisons related to taxpayer behavior, statistical evaluations of IRS' program activities and specialized studies in all areas of tax administration. This activity enables IRS and Treasury to have the necessary information to make decisions. Research ranges from multi-year studies to short-term program evaluations. In addition, this activity provides regular data sets to the Treasury Department, the Joint Committee on Taxation and other Federal agencies; publishes tax data for the general public; and provides research and reference tools for front-line IRS employees.

Program Activities:

- **Research** - Anticipates and identifies compliance/tax administration problems and performs strategic/tactical research
- **Statistics of Income** - Performs research and statistical analysis and prepares publications related to Statistics of Income

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES (TABLE 3.1)							
(Dollars in Thousands)							
RESEARCH							
RESEARCH BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F41)							
Total Operating Level (direct and reimbursables)	\$112,115	\$128,095	\$137,015	\$146,357	\$141,342	\$155,186	\$159,182
Total FTE (direct and reimbursables)	\$871	1,085	1,090	1,158	1,063	1,132	1,133
Research							
Direct Resources/User Fees	\$109,744	\$75,324	\$81,128	\$88,532	\$83,585	\$92,981	\$95,291
Direct FTE	425	514	533	572	535	544	544
Reimbursables		\$102	\$99	\$110	\$110	\$110	\$110
Reimbursables FTE		3	4				
Statistics of Income							
Direct Resources/User Fees	\$1,178	\$51,520	\$54,573	\$57,824	\$56,392	\$60,895	\$62,581
Direct FTE	445	555	539	572	514	575	575
Reimbursables	\$1,193	\$1,148	\$1,215	\$1,255	\$1,255	\$1,200	\$1,200
Reimbursables FTE		13	13	14	14	14	14

Numbers may not add due to rounding.

Internal Revenue Service

Summary of Reimbursable Resources (TABLE 3.2)
Research
(Dollars in Thousands)

Research	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$2		\$2		\$2	
IMF-Debtor Master File	\$27	0	\$27	0	\$27	0
FEMA-Charley	\$1		\$1		\$1	
Transportation Equity Act-21	\$41		\$41		\$41	
Debtor Master File	\$2		\$2		\$2	
TCC-Customs Support	\$23	0	\$23	0	\$23	0
Treasury Vignette License	\$15		\$15		\$15	
DTS/DOTTS/VMS	\$12		\$12		\$12	
Treasury Training Contract	\$11		\$11		\$11	
Treasury Communication Systems (TCS)	\$10	0	\$10	0	\$10	0
DIFSLA	\$10	0	\$10	0	\$10	0
Development of the Program of Requirements	\$9		\$9		\$9	
Other	\$1,202	14	\$1,147	14	\$1,147	14
Total: Research	\$1,365	14	\$1,310	14	\$1,310	14

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

RESEARCH

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

The IRS is continuing work on the National Research Program (NRP) to provide critical information on the tax gap. Specifically, the IRS completed the following: 1) accumulation of payment compliance measures for tax years 1999-2001, 2) filing compliance rate estimates, and 3) working towards completing the reporting compliance study for individual taxpayers in 2005. The IRS also used the tax year 1999 EITC Compliance study results to provide extensive support to the EITC Program Office in the refinement and evaluation of initiatives. This information was the basis for much of the policy surrounding the EITC pilot project. The IRS also developed a burden model for individual income taxpayers. The Statistics of Income (SOI) Division managed over 130 studies and functions focused on producing high-quality and timely data files, tabulations, publications and expertise for our principal customers, Treasury's Office of Tax Analysis, the Congressional Joint Committee on Taxation, and the Commerce Department's Bureau of Economic Analysis.

FY 2005 Performance Plan

In FY 2005, the IRS will continue the NRP to enhance vital information regarding elements of the tax gap. Specific project activities will include completion of the filing compliance and reporting compliance gap analysis, completion of the reporting compliance pilot on flow through entities, and undertaking a reporting compliance study for 1120S and 1065 returns. In FY 2005, SOI is scheduled to deliver nearly 100 files, tables, or metadata to its customers.

EXPLANATION OF BUDGET ACTIVITY

EXAMINATION

This activity supports the verification of information provided on tax returns as well as conducting audits of various levels of complexity. The Service matches documents using computer databases which compare information reported on tax returns to information reported to the IRS by employers, banks and brokerage firms, ensuring the accuracy of tax returns. This activity also provides resources for tax auditors to conduct on-site examinations, for revenue agents to conduct business and corporate audits, and for cooperation with treaty partners and international organizations.

Program Activities:

- **Legal Guidance** - Legal guidance provided to enforcement personnel during the course of various examination activities
- **Document Matching** - Compares tax submissions with information documents and works issues from Automated Underreporter (AUR), Combined Annual Wage Reconciliation /Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other programs
- **Electronic/Correspondence** - Examinations through correspondence not requiring field contact (i.e., mail, building cases, and return review)
- **Field** - Support of on-site audits and complex examinations as well as team examinations and some international activity
- **Litigation** - Tax court litigation and/or refund, appellate, or other cases related to enforcement of the tax code

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (TABLE 3.1)							
(Dollars in Thousands)							
EXAMINATION							
EXAMINATION BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F41)							
Total Operating Level (direct and reimbursable)	\$2,891,133	\$2,431,495	\$2,586,223	\$3,214,424	\$3,335,811	\$3,491,029	\$3,725,294
Total FTE (direct and reimbursables)	23,964	23,217	23,451	30,419	30,710	31,589	32,374
Legal Guidance							
Direct Resources/User Fees		\$59,997	\$62,436	\$65,228	\$64,026	\$66,897	\$68,788
Direct FTE		595	569	554	555	574	573
Reimbursables		\$12	\$12	\$13	\$13	\$13	\$13
Reimbursables FTE							
Document Matching							
Direct Resources/User Fees	\$132,816	\$149,133	\$159,917	\$192,680	\$187,375	\$194,138	\$210,820
Direct FTE	1,781	2,095	2,120	2,404	2,386	2,412	2,526
Reimbursables	\$214	\$396	\$374	\$481	\$481	\$481	\$481
Reimbursables FTE		2	2	1	1	1	1
Electronic/Correspondence Exam							
Direct Resources/User Fees	\$300,833	\$353,895	\$384,915	\$398,948	\$430,232	\$462,787	\$503,367
Direct FTE	4,067	4,723	4,881	5,287	5,193	5,558	5,956
Reimbursables	\$311	\$888	\$855	\$1,032	\$1,032	\$1,032	\$1,032
Reimbursables FTE		5	5	3	3	3	3
Field							
Direct Resources/User Fees	\$2,453,915	\$2,296,884	\$2,439,663	\$2,482,670	\$2,566,709	\$2,676,989	\$2,849,931
Direct FTE	23,964	21,905	22,135	21,446	21,848	22,297	22,570
Reimbursables	\$3,258	\$5,712	\$12,404	\$12,424	\$12,424	\$11,864	\$11,864
Reimbursables FTE		34	94	86	86	86	86
Litigation							
Direct Resources/User Fees		\$68,877	\$71,694	\$74,885	\$73,504	\$76,812	\$78,983
Direct FTE		683	653	637	637	659	658
Reimbursables		\$14	\$14	\$15	\$15	\$15	\$15
Reimbursables FTE							

Internal Revenue Service

Examination Performance Measures							
Examination Coverage - Individual Oe (New)	n/a	n/a	n/a	n/a	n/a	1.28%	1.41%
Examination Quality ^{1,2} - Individual Oe (New)							
Field	70%	74%	75%	78%	78%	80%	81%
Office	70%	71%	76%	75%	76%	77%	78%
Examination Coverage - Business Oe (New)	n/a	n/a	n/a	n/a	n/a	7%	9%
Examination Efficiency ³ - Individual E (New)	n/a	n/a	n/a	n/a	n/a	219	265
Examination Quality ² - Business Oe							
Industry*	70%	69%	74%	80%	74%	78%	80%
Coordinated Industry	80%	78%	89%	90%	87%	90%	92%
Automated Underreporter Case Accuracy Oe	n/a	n/a	n/a		n/a	Discontinued	Discontinued
Automated Underreporter Cases Closed Ot	2,511,424	2,922,182	2,905,478	3,081,830	3,482,661	Discontinued	Discontinued
Corr Examination Accuracy Oe	n/a	n/a	n/a	94%	89.0%	Discontinued	Discontinued
Business Returns Examined Ot	23,163	21,159	18,957	15,283	16,563	Discontinued	Discontinued
EP/EO Examination Case Quality Oe	73%	75%	82%	82%	85%	Discontinued	Discontinued
AUR Customer Satisfaction	n/a	n/a	43%	49%	53%	Discontinued	Discontinued
Corr Examination EITC Returns Examined	479,983	367,799	418,237	422,431	446,152	Discontinued	Discontinued
Corr Examination Non-EITC Returns Examined	146,621	177,447	262,431	288,636	356,099	Discontinued	Discontinued
Corr Examination Customer Satisfaction	34%	33%	36%	38%	41%	Discontinued	Discontinued
Individual Returns Examined > \$100k (SBSE, LMSB)	55,761	64,911	67,459	68,611	70,497	Discontinued	Discontinued
Individual Returns Examined < \$100K (SBSE, LMSB)	146,790	140,350	138,933	139,033	127,058	Discontinued	Discontinued
Examination Customer Satisfaction (SBSE)	47%	47%	63%	60%	57%	Discontinued	Discontinued
Examination Customer Satisfaction (LMSB)	83%	86%	80%	84%	80%	Discontinued	Discontinued
EP/EO Customer Satisfaction	68%	70%	72%	73%	73%	Discontinued	Discontinued
Appeals Closure to Receipt Ratio Oe	81%	89%	86%	81%	105%	Discontinued	Discontinued
Key: Oe - Outcome Measure, Ot - Output/Workload Measure							

1/A small percentage of businesses and corporations are included in this measure.

2/Composite measure under development

3/Number of Closures per FTE

Numbers may not add due to rounding.

Summary of Reimbursable Resources (TABLE 3.2)

Examination
(Dollars in Thousands)

Examination	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$62		\$62		\$62	
IMF-Debtor Master File	\$729	3	\$729	3	\$729	3
FEMA-Charley	\$22		\$22		\$22	
FinCEN-Anti-Money Laundering Act	\$5,274	64	\$4,714	64	\$4,714	64
Transportation Equity Act-21	\$2,331		\$2,331		\$2,331	
Debtor Master File	\$47		\$47		\$47	
TCC-Customs Support	\$585	6	\$585	6	\$585	6
Treasury Vignette License	\$375		\$375		\$375	
DTS/DOTTS/VMS	\$302		\$302		\$302	
Treasury Training Contract	\$273		\$273		\$273	
Trinidad	\$748	4	\$748	4	\$748	4
Treasury Communication Systems (TCS)	\$268	3	\$268	3	\$268	3
DIFSLA	\$265	2	\$265	2	\$265	2
Development of the Program of Requirements	\$231		\$231		\$231	
Other	\$2,452	10	\$2,452	10	\$2,452	10
Total: Examination	\$13,965	91	\$13,405	91	\$13,405	91

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

EXAMINATION

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

The examination activity showed increased performance in FY 2004. The IRS has increased its enforcement efforts, particularly for high-income individuals and corporations. Examinations of high-income individuals increased 14 percent from FY 2002 to FY 2004. The expediting of small business corporate returns to the field has significantly increased examination work in process. There are currently over 14,000 corporate returns and 11,000 flow-through returns in process. An additional 10,000 corporate and 15,000 flow-through returns are selected and available for examination. New programming allowed the IRS to freeze only the Earned Income Tax Credit (EITC portions) of refunds for questionable EITC claims, significantly reducing any hardships associated with those returns.

- Examination Quality for Field is 78 percent and Office is 76 percent
- Examination Quality for Industry is 74 percent and Coordinated Industry is 87 percent
- Correspondence Examination Accuracy for FY 2004 is 89 percent
- Automated Underreporter Cases Closed for FY 2004 is 3,482,661 compared to 2,905,478 for FY 2003

FY 2005 Performance Plan

The IRS will continue to expedite small-business corporate returns to the field and renew focus on increasing the efficiency of the Taxpayer Compliance Officer (TCO) Program. The IRS will also continue its focus upon returns with a higher compliance risk and income, reducing the number of closures in the less than \$100K category and increasing closures in the higher income bracket (>\$100K). Additionally, the IRS plans to increase hiring of technical employees to refresh the workforce and maintain a pipeline of agents to address complex issues. Abusive tax avoidance transactions will continue to be emphasized, especially promoter activity.

- Examination Coverage – Individual – 1.28 percent
- Examination Quality – Individual
 - Field –80 percent
 - Office –77 percent
- Examination Coverage – Business – 7 percent

Internal Revenue Service

- Examination Efficiency – Individual – 219 (number of closures per FTE)
- Examination Quality – Business
 - Industry – 78 percent
 - Coordinated Industry – 90 percent

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

EXAMINATION

FY 2006 Proposed Program Performance

The IRS will continue its enforcement focus on high-risk returns, increasing enforcement of tax-avoidance transactions by high-income individuals and corporations. Tax shelters, promoter activity and abusive tax avoidance transactions will continue to be emphasized. Specific FY 2006 performance goals follow:

- Examination Coverage – Individual - 1.41 percent
- Examination Quality – Individual
 - Field – 81 percent
 - Office – 78 percent
- Examination Coverage Business – 9 percent
- Examination Efficiency – Individual – 265 (number of closures per FTE)
- Examination Quality – Business
 - Industry – 80 percent
 - Coordinated Industry – 92 percent

The Service is requesting resources to Detect and Deter Corrosive Corporate Non-Compliance. This effort utilizes resources culled from improved issue management and risk-assessment strategies to fund front-line enforcement activities. Some of the IRS' most skilled and knowledgeable agents will focus on addressing complex, high-risk issues, while looking for evidence of abusive tax shelters and non-compliance with tax laws by tax professionals. Expert post-filing support will facilitate increased field issue resolution, reducing taxpayer burden and increasing the credibility of the Service's positions on the most complex and high-impact issues sent to court.

The enforcement initiative to Attack Corrosive Non-Compliance Activity Driving the Tax Gap provides resources to increase coverage of the growing number of high-risk compliance problems and address the largest portion of the tax gap – the underreporting of tax. The initiative includes funding across all major domestic and international compliance programs to leverage new workload selection systems and case building approaches from continuing reengineering efforts. The initiative will increase the amount of revenue agents to 240 to provide coverage of additional field and international examinations of investor returns, resulting in millions in additional revenue.

EXPLANATION OF BUDGET ACTIVITY

COLLECTION

The collection activity provides resources to collect income tax due from all sources: individuals, small and large corporations, partnerships and the self-employed. Collection primarily occurs in field offices and compliance campuses. The IRS uses a variety of approaches and techniques, including full-payment demands, installment agreements, offers-in-compromise, liens, levies, bankruptcy procedures and property seizures. Such activities may be related to correspondence, or notices, or may require litigation or punitive collection efforts. Collection procedures help to ensure that the tax law is applied with integrity and fairness to all.

Program Activities:

- **Electronic/Correspondence** - Centralized automated collection efforts, notice processing, requests for installment agreements and offers-in-compromise (OIC), etc.
- **Field** - Field collection efforts associated with delinquent taxpayer liabilities

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES (TABLE 3.1)							
(Dollars in Thousands)							
COLLECTION							
COLLECTION BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F41)							
Total Operating Level (direct and reimbursable)	\$1,518,643	\$1,641,863	\$1,677,649	\$1,779,236	\$1,764,467	\$1,829,089	\$1,993,936
Total FTE (direct and reimbursables)	15,884	18,280	17,710	18,400	17,765	18,035	18,825
Electronic/Correspondence Collection							
Direct Resources/User Fees	\$519,807	\$633,371	\$694,608	\$735,646	\$744,664	\$818,398	\$906,991
Direct FTE	6,334	7,637	7,817	8,054	8,081	8,855	9,524
Reimbursables	\$775	\$1,466	\$1,398	\$1,644	\$1,644	\$1,503	\$1,503
Reimbursables FTE		8	8	5	5	5	5
Field Collection							
Direct Resources/User Fees	\$996,896	\$1,005,108	\$979,951	\$1,043,587	\$1,016,288	\$1,007,317	\$1,083,571
Direct FTE	9,550	10,623	9,874	10,336	9,674	9,168	9,291
Reimbursables	\$1,165	\$1,917	\$1,691	\$1,871	\$1,871	\$1,871	\$1,871
Reimbursables FTE		12	10	6	6	6	6
Collection Performance Measures							
Collection Coverage - units E (New)	n/a	n/a	n/a	n/a	n/a	32%	32%
Collection Efficiency - units E (New)	n/a	n/a	n/a	n/a	n/a	497	503
Collection Accuracy ¹	n/a	n/a	n/a	n/a	n/a		
Field Collection Quality of Cases Handled in Person Oe	84%	84%	84%	86%	82%	84%	85%
Automated Collection System (ACS) Accuracy Oe	n/a	n/a	n/a	88%	89%	88%	89%
Compliance Services Collection Operations Accuracy Oe	n/a	n/a	n/a	95%	94.0%	Discontinued	Discontinued
ACS Closures TDA	1,006,600	950,696	1,155,697	1,139,016	1,337,904	Discontinued	Discontinued
ACS Closures TDI	297,791	190,411	197,517	198,155	295,010	Discontinued	Discontinued
ACS Customer Satisfaction	56%	53%	91%	91%	92%	Discontinued	Discontinued
Field Collection Cases Closed TDA	757,392	724,430	880,939	892,560	949,521	Discontinued	Discontinued
Field Collection Cases Closed TDI	119,451	140,737	150,190	152,153	197,499	Discontinued	Discontinued
Field Collection Customer Satisfaction	53%	51%	60%	59%	62%	Discontinued	Discontinued
Key: Oe - Outcome Measure, E - Efficiency Measure							

1/ Composite measure under development for FY 2005

Numbers may not add due to rounding.

Summary of Reimbursable Resources (TABLE 3.2)
Collection
(Dollars in Thousands)

Collection	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$37		\$37		\$37	
IMF-Debtor Master File	\$484	2	\$343	2	\$343	2
Transportation Equity Act-21	\$640		\$640		\$640	
Debtor Master File	\$28		\$28		\$28	
TCC-Customs Support	\$352	4	\$352	4	\$352	4
Treasury Vignette License	\$226		\$226		\$226	
DTS/DOTTS/VMS	\$182		\$182		\$182	
Treasury Training Contract	\$164		\$164		\$164	
Treasury Communication Systems (TCS)	\$161	2	\$161	2	\$161	2
DIFSLA	\$159	1	\$159	1	\$159	1
Development of the Program of Requirements	\$139		\$139		\$139	
Other	\$930	3	\$930	3	\$930	3
Total: Collection	\$3,515	11	\$3,374	11	\$3,374	11

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

COLLECTION

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

The IRS made advances in Collection programs in FY 2004. Specific emphasis was placed on the Offer-in-Compromise (OIC) program to improve: the quality of case decisions by ensuring the OIC process has a specific role in the overall collection strategy for dealing with delinquent accounts, cycle time by assigning cases corporately and clarifying guidelines for timeliness, customer satisfaction by ensuring procedures on unprocessable and returned cases are working and initiating an OIC customer satisfaction survey, and employee engagement through monthly conference calls and delivery of financial analysis training. The IRS met or exceeded FY 2004 Automated Collection System (ACS) performance targets as a result of several process and management improvement initiatives such as Corporate Inventory Management and improved workforce scheduling.

- Automated Collection System (ACS) Accuracy is 89 percent for FY 2004 (N/A in FY 2003)
- Field Collection Quality of Cases Handled in Person is 83 percent for FY 2004, compared to 84 percent in FY 2003
- ACS Closures Taxpayer Delinquency Account (TDA) for FY 2004 is 1,337,904, an increase of 16 percent over FY 2003
- ACS Closures Taxpayer Delinquency Investigation (TDI) for FY 2004 is 295,010, an increase of 45 percent over FY 2003

FY 2005 Performance Plan

The IRS will continue to capitalize on the significant progress that has been made in building the infrastructure to bolster collection programs. The IRS will continue to focus on Collection Program priorities and activities to fully engage employees in the day-to-day business plan activities to restore confidence in using enforcement tools, understand enforcement boundaries, emphasize quality casework, and ensure accountability across the organization. Following are the FY 2005 performance measures for Collection.

- 32 percent Collection Coverage
- 497 Collection Efficiency
- Collection Accuracy
 - 84 percent Field Collection Quality of Cases Handled in Person
 - 88 percent ACS Accuracy

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

COLLECTION

FY 2006 Proposed Program Performance

The IRS will continue to capitalize on significant progress made in building the infrastructure to bolster collection programs. Legislation to authorize the IRS to enter into contracts with private collection agencies for the Private Debt Collection effort was signed into law on October 22, 2004, and IRS plans to develop and deploy a system to effectively use these resources. The IRS also plans to use computer models to better identify cases with a high or low propensity to pay or to be unproductive. Specific FY 2006 performance goals for Collection follow:

- 32 percent Collection Coverage – Units
- 503 Collection Efficiency
- 85 percent for Field Collection Quality of Cases Handled in Person
- 91.5 percent for Automated Collection System (ACS) Accuracy

The enforcement initiative to Attack Corrosive Non-Compliance Activity Driving the Tax Gap provides resources to increase coverage of the growing number of high-risk compliance problems and to address the largest portion of the tax gap – the underreporting of tax. The initiative includes a funding increase across all major domestic and international compliance programs to leverage new workload selection systems and case building approaches from continuing reengineering efforts. The initiative will result in approximately 53,600 more closures in FY 2006 resulting in millions in additional collections through FY 2008.

EXPLANATION OF BUDGET ACTIVITY INVESTIGATIONS

The Investigations activity funds the exploration of potential criminal violations of the tax law in a manner that fosters confidence in the tax system. This ensures the tax law is applied with integrity and fairness to all. The major goal in a financial investigation is to identify and document the movement of money during the course of a crime. The link between where the money comes from, who gets it, when it is received and where it is stored or deposited, can provide proof of criminal activity. Resources are dedicated to combating abusive schemes and scams, curtailing fraudulent refund crimes, enforcing money laundering statutes, documenting financial transactions related to narcotics trafficking, dismantling the financial infrastructure of terrorists, exposing Bank Secrecy Act violations, and participating in various intra-governmental task forces. Beginning in FY 2006, this activity will also include Organized Crime and Drug Enforcement resources previously reimbursed by the Department of Justice.

Program Activities:

- **Criminal Investigation** - Staffing, training, and direct support for the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes, including the investigation and prosecution of tax and money laundering associated with terrorist financing and narcotics organizations.

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES (TABLE 3.1)							
(Dollars in Thousands)							
INVESTIGATIONS							
INVESTIGATIONS BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Total Operating Level (direct and reimbursable)	\$585,717	\$678,453	\$695,685	\$656,238	\$752,521	\$784,042	\$813,480
Total FTE (direct and reimbursables)	4,748	5,293	5,082	5,473	4,569	5,239	5,253
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F41)							
Criminal Investigations							
Direct Resources/User Fees	\$379,284	\$478,642	\$510,027	\$547,580	\$534,238	\$476,998	\$534,468
Direct FTE	2,830	3,689	3,696	3,893	3,295	3,962	4,239
Reimbursables	\$10,505	\$1,048	\$997	\$16,941	\$16,941	\$12,675	\$10,553
Reimbursables FTE	432	5	4	3	3	11	1
Treasury Goal: Preserve the Integrity of Financial Systems (F3)							
Treasury Objective: Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other financial criminals (F3A)							
Criminal Investigations							
Direct Resources/User Fees	\$106,988	\$103,005	\$91,514	\$108,551	\$111,965	\$204,982	\$232,950
Direct FTE	1,054	1131	933	1,108	802	937	1,011
Reimbursables	\$88,940	\$95,757	\$93,147	\$89,377	\$89,377	\$89,387	\$35,509
Reimbursables FTE	432	468	450	469	469	329	2
Investigation Performance Measures							
Criminal Investigations Completed Ot	3,340	3,201	3,766	3,400	4,387	3,895	3,830
Key: Ot - Output/Workload Measure							

Numbers may not add due to rounding.

Internal Revenue Service

Summary of Reimbursable Resources (TABLE 3.2)
Investigations
(Dollars in Thousands)

Investigations	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Organized Crime and Drug Enforcement	\$72,469	469	\$53,913	329		
Treasury Forfeiture Funds	\$29,581		\$37,136		\$37,136	
Photocopy Service Centers	\$11		\$11		\$11	
IMF-Debtor Master File	\$128		\$128		\$128	
Transportation Equity Act-21	\$189		\$189		\$189	
CTEF	\$2,145		\$4,145		\$4,145	
Debtor Master File	\$8		\$8		\$8	
TCC-Customs Support	\$104	1	\$339	5	\$339	1
Treasury Vignette License	\$67		\$67		\$67	
DTS/DOTTS/VMS	\$54		\$54		\$54	
Treasury Training Contract	\$49		\$49		\$49	
Sales of Autos	\$869		\$2,424		\$2,424	
Treasury Communication Systems (TCS)	\$48		\$48		\$48	
DIFSLA	\$47		\$47		\$47	
Development of the Program of Requirements	\$41		\$41		\$41	
Other	\$506	2	\$3,461	6	\$1,374	2
Total: Investigations	\$106,318	472	\$ 102,062	340	\$46,062	3

*The FY 2006 budget proposes to transfer the OCDETF resources, \$ 55,584 and 329 FTE from the Department of Justice to the IRS. (Includes \$1,671 to maintain current levels)

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

INVESTIGATIONS

Evaluation of FY 2005 Performance compared with FY 2004

FY 2004 Performance

The IRS investigated criminal violations of the Internal Revenue Code and related financial crimes to foster confidence, compliance, and preserve the integrity and equity in the American tax system. Investigative priorities focused on Corporate Fraud, Abusive Tax Schemes, Refund Crimes, Non-Filers, Employment Tax, and Terrorist Financing. The IRS Fraud Referral program was enhanced through greater coordination and training among the operating divisions. In addition, IRS implemented the Business Master File Refund Fraud (BMF) program. The BMF program addresses a continuing management challenge and high-risk designation of erroneous payments as identified by oversight agencies. Corporate fraud was established as an IRS-wide priority to attack this growing issue that undermines the national economy.

- Total Criminal Investigations completed for FY 2004 was 4,387 or 14 percent greater than the FY 2004 Performance Plan (3,842) and 16.5 percent higher than completed in FY 2003 (3,766)
- Cycle time in completed investigations for FY 2004 is 397 days, a 9.8 percent decrease from FY 2002 (440 days)

FY 2005 Performance Plan

IRS will continue to focus its investigative resources on legal source tax investigations by working closely with the other operating divisions to develop and investigate cases on significant violators. Additionally, the IRS will pursue significant investigations involving illegal source tax and other financial crimes, including money laundering, that adversely affect tax administration.

The IRS will continue to build strong working relationships among all IRS operating divisions, the United States Attorneys' Offices (USAO) and other law enforcement agencies to develop significant tax and other financial investigations. To identify high-impact investigations involving non-compliant industries, schemes, and individuals, the IRS will use all available resources including proactive participation on task forces, projects, and Suspicious Activity Report (SAR) Review Teams. Further, the Lead Development Centers will proactively develop significant investigations for the field. IRS will provide fraud awareness training for the Operating Divisions on key compliance risks to strengthen the fraud referral and corporate fraud programs.

Internal Revenue Service

- Criminal Investigations plans to complete 3,895 investigations in FY 2005. The target reflects the reduction of almost \$20 million and 158 FTE in the Organized Crime Drug Enforcement Task Force (OCDETF) reimbursable for FY 2005. In addition, staff will shift from narcotics to tax-related investigations, which generally take longer to complete.

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

INVESTIGATIONS

FY 2006 Proposed Program Performance

The IRS will continue to enforce the criminal provisions of the Internal Revenue Code, the Bank Secrecy Act and anti-money laundering statutes, with a continued focus on increasing the application of resources to tax-administration investigations, and strengthening the fraud referral program. Operational priorities include the Fraud Referral, Abusive Tax Scheme, Corporate Fraud, Money Laundering/Financial Criminal Activity, Counterterrorism, Narcotics Refund Crimes, Tax Exempt Entity Abuse, Non-Filer, Employment Tax, Electronic Crimes/Technology, International Liaison and Asset Forfeiture programs. In addition, access to the Department of Human Services National Directory of New Hires (NDNH) database will enable IRS to verify W-2 data on EITC returns more efficiently, saving staff hours that will be applied to the identification of additional fraudulent refund claims. In addition to enhancing enforcement, use of NDNH will provide substantial service to the taxpayer as well. It will significantly decrease the number of telephonic and fax verifications made to employers. It will release non-fraudulent refund requests more quickly to deserving taxpayers. Also, it will reduce inquiries to the Taxpayer Advocate, as refunds will be released rather than detained pending a lengthy manual verification process.

Specific FY 2006 performance goals follow:

- Criminal Investigations completed are estimated at 3,830 for FY 2006. The slight decrease from FY 2005 due to the shifting of special agents from narcotic investigations to tax and financial crime investigations which are more complex and take up more time. This shifting is the result of the almost \$20 million reduction to the Organized Crime Drug Enforcement Task Force funding from FY 2004 to FY 2005.

EXPLANATION OF BUDGET ACTIVITY

REGULATORY COMPLIANCE

The regulatory compliance activity provides resources for the interpretation of and guidance on tax laws; the development of published guidance materials; the enforcement of regulatory rules, laws and approved business practices; and the monitoring of currency transaction reporting requirements for financial institutions. These resources also support the IRS' increased focus on offshore credit cards, abusive schemes, technical tax shelters, and high-income taxpayers. This is accomplished through published guidance and acceleration of the issuance of notices identifying abusive tax avoidance transactions. Regulatory compliance protects the integrity of tax administration by resolving tax law issues before returns are filed.

Program Activities:

- **Rulings and Agreements** - Provides legal advice in a fair and impartial manner with a focus on determining and applying the proper meaning of the Internal Revenue Code.
- **Interpretation and Guidance** - Interpretations of tax law through published guidance, technical advice, and other legal services
- **Non-Tax Regulatory Compliance** - Ensures compliance with disclosure laws and provides IRS with general legal assistance on non-tax issues
- **Currency Transaction Reporting** - Provides staffing, training, and direct support to process reports for currency transactions and Bank Security Act violations
- **Professional Responsibility** - Focuses resources on ensuring the honesty and integrity of tax professionals and other practitioners

Internal Revenue Service

SUMMARY OF PROGRAM RESOURCES (TABLE 3.1) (Dollars in Thousands) REGULATORY COMPLIANCE							
REGULATORY COMPLIANCE BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F41)							
Total Operating Level (direct and reimbursable)	\$162,178	\$230,777	\$253,391	\$256,251	\$253,945	\$255,455	\$267,317
Total FTE (direct and reimbursables)	1,545	2,131	2,119	2,160	1,945	1,925	1,958
Rulings and Agreements							
Direct Resources/User Fees	\$114,548	\$142,068	\$150,355	\$154,332	\$151,897	\$150,081	\$153,786
Direct FTE	1,251	1,312	1,379	1,393	1,164	1,115	1,054
Reimbursables	\$11	\$306	\$293	\$298	\$298	\$298	\$298
Reimbursables FTE		1	1	1	1	1	1
Intpretation and Guidance							
Direct Resources/User Fees	\$20,255	\$37,839	\$52,621	\$52,608	\$52,404	\$52,811	\$59,530
Direct FTE	\$59	301	404	370	390	381	411
Reimbursables	\$177	\$43	\$60	\$68	\$68	\$68	\$68
Reimbursables FTE							
Non-Tax Regulatory Compliance							
Direct Resources/User Fees	-	\$14,814	\$16,185	\$16,184,868	\$16,180	\$16,047	\$16,510
Direct FTE	-	144	138	140	146	152	152
Reimbursables	-			\$5	\$5	\$5	\$5
Reimbursables FTE	-						
Currency Transaction Reporting							
Direct Resources/User Fees	\$27,187	\$35,763	\$33,219	\$33,123,299	\$30,899	\$34,054	\$35,029
Direct FTE	294	372	190	244	232	264	328
Reimbursables		\$251	\$952	\$2,194	\$2,194	\$2,091	\$2,091
Reimbursables FTE			7	12	12	12	12
Professional Responsibility							
Direct Resources/User Fees							
Direct FTE							
Reimbursables							
Reimbursables FTE							
Regulatory Compliance Performance Measures							
TEGE Determination Case Closures Ot	109,326	129,680	171,812	141,000	143,877	131,700	122,100
Number of TEGE Compliance Contacts Ot	15,988	13,549	13,029	19,140	16,518	Discontinued	Discontinued
Total Published Guidance Items Published Oe	n/a	225	332	350	320	Discontinued	Discontinued
Taxpayer Advocate Closures to Receipt Ratio	97.6%	108%	108%	100%	101%	Discontinued	Discontinued

Key: Oe - Outcome Measure, Ot - Output/Workload Measure

Numbers may not add due to rounding.

Summary of Reimbursable Resources (TABLE 3.2)
Regulatory Compliance
(Dollars in Thousands)

Regulatory Compliance	FY 2004 Actual	FY 2004 FTE	FY 2005 Estimate	FY 2005 FTE	FY 2006 Estimate	FY 2006 FTE
Photocopy Service Centers	\$4		\$4		\$4	
IMF-Debtor Master File	\$51	0	\$51	0	\$51	0
FEMA-Charley	\$2		\$2		\$2	
Transportation Equity Act-21	\$77		\$77		\$77	
FinCEN-MSB Regulatory Effort	\$2,076	12	\$1,973	12	\$1,973	12
Debtor Master File	\$3		\$3		\$3	
TCC-Customs Support	\$42	0	\$42	0	\$42	0
Treasury Vignette License	\$27		\$27		\$27	
DTS/DOTTS/VMS	\$22		\$22		\$22	
Treasury Training Contract	\$20		\$20		\$20	
Treasury Communication Systems (TCS)	\$19	0	\$19	0	\$19	0
DIFSLA	\$19	0	\$19	0	\$19	0
Development of the Program of Requirements	\$17		\$17		\$17	
Other	\$186	0	\$186	0	\$186	0
Total: Regulatory Compliance	\$2,565	13	\$2,462	13	\$2,462	13

Numbers may not add due to rounding

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

REGULATORY COMPLIANCE

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

In the area of regulatory compliance, the IRS is shifting toward more enforcement activities. During FY 2004, measurable progress in this transition was made, specifically in identifying and addressing abusive tax schemes. Compared to FY 2003, outreach activities decreased 31 percent while total compliance contacts increased 29 percent in the tax-exempt and government entities segment.

- Total Determinations for FY 2004 reached 143,877. Closures in Employee Plans (EP) fell 30 percent due to the return of significant resources to Examination associated with the close of the recent remedial amendment period, which had created a spike in determination receipts and closures in recent years. Planned actions will help to level this workload in future years.
- Exempt Organizations (EO) Determinations receipts in FY 2004 increased one percent over FY 2003 receipts
- The Exempt Organization Contact Unit (EOCU) made 8,065 educational contacts and 2,458 compliance contacts

FY 2005 Performance Plan

In FY 2005, the IRS will undertake an initiative to ensure appropriate information sharing and enforcement coordination with the Pension Benefit Guaranty Corporation (PBGC) and the Department of Labor (DOL) to resolve funding deficiencies in certain industries. Employee Plans will introduce new procedures for filing remedial plan amendments; these changes will stabilize determination receipt patterns, improve resource planning and eliminate the cyclical diversion of examination staff to determination work. The IRS will pursue a multi-faceted approach to combat potential terrorist use of exempt organizations that includes coordination with and assistance to other investigative agencies. A training course was developed for EO agents on terrorism, fraud and abusive transactions.

- 131,700 Determination Case Closures

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

REGULATORY COMPLIANCE

FY 2006 Proposed Program Performance

The IRS will continue to ensure that compliance resources remain committed to enforcement activities, including ongoing initiatives to detect and combat abusive tax avoidance transactions and terrorist misuse of tax-exempt organizations. To improve compliance coverage among newly formed exempt organizations, EO Rulings & Agreements will institute a number of improvements in the determination process, including a system of regular operation reviews of exempt organizations. The system will help us to identify high-risk organizations early in order to deter abusive behavior more timely.

Specific FY 2006 performance goals for Collection follow:

- Determination Case Closures for FY 2006 are projected at 122,100

**BUSINESS SYSTEMS
MODERNIZATION (BSM)
APPROPRIATION**

NARRATIVE SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (EXHIBIT 3a)

BUSINESS SYSTEMS MODERNIZATION

The Business Systems Modernization (BSM) appropriation provides for the planning and capital asset acquisition of information technology systems to modernize the IRS' antiquated business systems.

The IRS tax administration system which collects more than \$1.95 trillion in revenues annually is critically dependent on a collection of 40-year old, obsolete computer systems. Recognizing the long-term commitment needed to solve the problem of modernizing these antiquated systems, Congress created a special Business Systems Modernization (BSM) account in FY 1998. Failure to modernize the IRS' tax administration business systems will result in a significant increase in the resources required to maintain IRS' legacy systems – systems that no longer efficiently serve America's taxpayers.

The BSM appropriation provides for reengineering business practices and acquiring new technology. The Service is using a formal methodology to prioritize, approve, fund, and evaluate its portfolio of BSM investments across the IRS Business Units and Modernization and Information Technology Services (MITS). This methodology enforces a documented, repeatable, and measurable process for managing investments throughout their life cycle. Investment decisions are approved by the MITS Enterprise Governance Committee, which includes the Chief Information Officer and other senior MITS executives, the Chief Financial Officer, and the heads of the Business Operating Divisions. This executive-level oversight ensures that products and projects delivered under the BSM program are fully integrated into IRS Business Units.

Customer Account Data Engine (CADE) will be a modern database that will house tax information for more than 200 million individual and business taxpayers. It replaces an antiquated system called the Master File. The magnetic tape-based Master File system came into use four decades ago, taking a week to update records which resulted in delays in providing accurate account information for taxpayers. When completed, CADE will provide a variety of benefits to taxpayers, such as faster refunds (by more than 50 percent) along with daily postings of transactions and updating accounts, which (with other technology elements) will improve customer service.

IRS deployed the first installment of CADE in August 2004. For the first time in 40 years, the IRS is processing returns and issuing refunds on a new computer system. As of early December 2004, CADE had processed approximately 2,600 paper returns, 550 electronic returns, and had issued over \$700 K in refunds.

Internal Revenue Service

CADE is the IRS' highest priority technology project. The delivery of the first release of CADE is a major achievement. However, the technology required for system expansion to process more complex tax returns at greater volumes remains a high-risk venture.

Other technology solutions will be balanced with cultural changes and advances in business systems to improve enforcement, customer service, and delivery of modernized systems. The IRS Enterprise Architecture provides the framework and direction for a coordinated move into the future. The successful delivery of a modernized tax administration system will require the resources to fund infrastructure, program management, releases of business applications, and the costs of transitioning modernized systems into operational status. The FY 2006 budget request funds continuation of the CADE, Modernized e-File, and Filing and Payment Compliance projects.

EXPLANATION OF BUDGET ACTIVITY

INFORMATION TECHNOLOGY INVESTMENTS

The Information Technology Investments under BSM provides resources for the planning and capital asset acquisition of information technology systems, including related contractual costs of such acquisitions and operations authorized by 5 U.S.C. 3109, to modernize the IRS' business systems

The IRS is modernizing its business processes and implementing new technology in an effort to fundamentally transform the way it delivers services and manages information. The BSM program brings together the best business solutions and industry practices from the public, private, and technology sectors. BSM is transforming operations by improving business processes and harnessing technology to increase productivity and efficiency. These systems need to be replaced.

BSM funds large-scale modernization projects through their life cycle, beginning with project vision and strategy, and continuing through requirements development, design, testing, deployment, and transition to operations.

The IRS has undergone an intensive Servicewide portfolio prioritization and "right-sizing" effort leading to a long-term modernization plan identifying selected modernization projects, a release sequence for each project, and estimated costs for each project. The effort is based on vision and strategy initiatives that created an enterprise-wide view which coordinates the needs of the IRS Business Units.

Modernization of IRS information technology is a high priority. Improving overall compliance with tax laws, while balancing the need to help taxpayers meet their tax responsibilities, will be made easier by the successful completion of the modernization efforts. "Modernization" includes technology projects with which taxpayers are not directly involved, such as replacing the master file system, implementing new accounting systems, and building the modernized technological infrastructure on which all future modernized applications will depend.

The long-term future of the Service's tax system depends heavily on achieving continued successes. A key component of delivering on the challenge of modernizing America's tax system is for IRS to establish credibility with key stakeholders and to identify and address barriers to achieving business modernization success, and to show constituents that IRS can and will get modernization done "right." Getting modernization "right" means building systems that meet the business needs of tax administration while delivering tangible benefits to taxpayers. The right balance of IRS business leaders are now engaged with the modernization technology team to help determine how to best apply technology in order to improve service to taxpayers, support enforcement activities, and improve compliance. Business benefits provided by BSM to-date include:

Internal Revenue Service

- The IRS is processing returns and issuing refunds on a new computer system for the first time in 40 years
- Corporations and tax-exempt organizations have the option of filing their annual income tax and information returns electronically
- Tax professionals and businesses have a suite of new Web-based tools that dramatically improves their interface with the IRS
- Bills are being paid by our new integrated financial system
- Taxpayers with Internet access can get instant refund status information
- Businesses and taxpayers are applying for and receiving Internet Employee Identification Numbers (EINs) over the Internet

Maturing management processes, strategically driven business requirements, and improved project life cycle methodologies will define and drive the modernization initiative going forward. IRS scaled back the modernization program portfolio by narrowing the scope and reducing the number of modernization projects in FY 2004 and FY 2005. The FY 2006 budget funds continued progress on the CADE, Modernized e-File, and Filing and Payment Compliance projects.

Internal Revenue Service

ANALYSIS OF FY 2005 APPROPRIATED LEVEL (TABLE 2.2)

	FTE	Amount (\$000)
FY 2005 President's Budget.....	-	\$285,000
Congressional Action.....	-	(\$80,000)
FY 2005 Enacted (P.L. 108-447).....	-	\$205,000
FY 2005 Appropriation Rescission (P.L. 108-447).....	-	(\$1,640)
FY 2005 Proposed Operating Level.....	-	\$203,360

DIGEST OF FY 2006 BUDGET ESTIMATES BY BUDGET ACTIVITY (TABLE 2.3a)

(Dollars in Thousands)												
Business Systems Modernization	FY 2004		FY 2005		FY 2006		INCREASE (+) OR DECREASE (-) FOR FY 2006					
	Actual Resources		Budget Estimate		Budget Estimate		TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources												
Information Technology Investments		\$387,699		\$203,360		\$199,000		(\$4,360)				(\$4,360)
Total, Appropriated Resources		\$387,699		\$203,360		\$199,000		(\$4,360)				(\$4,360)
Adjustments (+/-):												
Unobligated Balance Available, SOY		\$163,082		\$230,212		\$93,000		(\$137,212)				(\$137,212)
Unobligated Balance Available, EOY		(\$230,212)		(\$93,000)		(\$88,000)		\$5,000				\$5,000
Unobligated Balance Expiring		(\$2,532)										
Recoveries of prior year Obligations		\$15,653										
Offsetting Collections - Reimbursable												
Mandatory Appropriation - User Fees												
Transfers In/Out (all sources)												
Subtotal, Adjustments		(\$54,009)		\$137,212		\$5,000		(\$132,212)				(\$132,212)
Program Operating Level												
Information Technology Investments		\$333,690		\$340,572		\$204,000		(\$136,572)				(\$136,572)
Total, Program Operating Level		\$333,690		\$340,572		\$204,000		(\$136,572)				(\$136,572)
Numbers may not add due to rounding.												

Numbers may not add due to rounding.

SUMMARY EXPLANATIONS OF FY 2006 REQUESTED CHANGES BY BUDGET ACTIVITY (TABLE 2.7a)		
Business Systems Modernization Appropriation (Dollars in Thousands)		
Requested Changes	Business Systems Modernization Total	
	FTE	Amount
ADJUSTMENTS TO BASE: Business Systems Modernization Savings		(\$4,360)
TOTAL CHANGES, BUDGET AUTHORITY		(\$4,360)

Numbers may not add due to rounding.

SUMMARY OF PROGRAM INCREASES AND DECREASES (EXHIBIT 2a)

Business Systems Modernization

1. Business Systems Modernization Savings-\$4,360 K / 0 FTE

This reduction reflects a reduced portfolio of projects and scaled-back infrastructure and management activities associated with program-level operations.

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (TABLE 3.1)							
(Dollars in Thousands)							
INFORMATION TECHNOLOGY INVESTMENTS							
INFORMATION TECHNOLOGY INVESTMENTS BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F41)							
Direct Resources		\$314,229	\$363,086	\$387,669	\$182,776	\$203,360	\$199,000
Total FTE							
Tier A Modernization Projects							
Direct Resources/User Fees		\$314,229	\$363,086	\$387,669	\$182,776	\$203,360	\$199,000
Direct FTE							
BSM Performance Measures							
Contracted Program Cost and Schedule Variance E (new)	n/a	n/a	n/a	na	n/a	15%	15%
Contracted Requirements Stability and Contracted Requirements Delivered E (new)	n/a	n/a	n/a	n/a	n/a	10%	10%

Key: Oe - Outcome Measure, E - Efficiency Measure

Numbers may not add due to rounding.

EVALUATION OF FY 2005 PERFORMANCE PLAN (Exhibit 3b)

BUSINESS SYSTEMS MODERNIZATION (BSM)

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

e-Services –

- More than 61,100 on-line registration participants of the Registered User Portal
- More than 133,000 Electronic Return Originator Applications for e-File
- More than 88,000 on-line requests for Preparer Taxpayer Identification Number (TIN)
- More than 22 million Bulk TIN Match requests processed
- Nearly 1 million Interactive TIN Match requests
- Transcript Delivery System has processed more than 31,777 requests for transcripts via the Registered User Portal
- More than 5,653 Power of Attorney requests (Form 2848) received through Disclosure Authorization
- Received and processed more than 2,921 requests via Electronic Account Resolution

Modernized e-File (MeF) –

- Release 1 went live on 2/23/04; Release 2 went live on 8/9/04; and Release 3.1 went live on 11/15/04
- 51,869 returns (Form 1120 family) accepted as of 12/29/04 (217 percent of projections)
- 4,028 participating Electronic Return Originators as of 12/29/04
- 1,040 returns (Form 990 family) accepted as of 12/29/04 (130 percent of projections)
- Winner of Government Solutions “Best-of-the-Best” Pioneer Solutions Award

Integrated Financial System (IFS) –

- IFS deployment cutover began 9/21/04 and achieved initial operating capability on 11/10/04
- Prior year data has been converted and more than 1,700 end users have been trained and are using IFS daily
- 90 percent of the backlogged invoices created during the cutover period have been paid
- Payroll transaction backlog is complete and all IFS databases are current
- More than 25,000 procurement commitments, obligations and receipt/acceptance documents were processed through 12/30/04
- The SF-224 for November (the first reporting period for IFS) was submitted to Treasury on time
- The TIER file for November was submitted to Treasury on time, within the three-day close timeframe
- Remaining full operating capability components are on schedule for January 2005 maintenance release

Customer Account Data Engine (CADE) –

The first release of CADE went into production the week of 7/12/04

The first release processed a subcomponent of 1040EZs from the 2004 filing season, and issued refunds more than 50 percent faster than the legacy Master File

CADE has processed 3,228 paper returns and 588 electronic returns, and issued \$916,376 in refunds to-date (as of 01/03/05)

FY 2005 Performance Plan

e-Services –

Complete Software Upgrade from PeopleSoft v8.1 to v8.8

Filing Season Changes

Transition to Support / Operations & Maintenance

MeF –

Additional Forms 990PF/1120A/7004

Allow submission of states electronic business filings attached to federal electronic filing

CADE –

Form 1040EZ - Refund & Even Balance for Single Taxpayers

Update Form 1040EZ (Release One) to reflect 2005/2006 tax law changes

BSM “program-level” operations, the Core Infrastructure and Architecture, Integration and Management activities, allow BSM to operate as a cohesive program, rather than a collection of disparate projects. FY 2004 and FY 2005 funds continue to be used to support these activities. Core Infrastructure activities include: development, Integration and Testing and Shared Infrastructure. Architecture, Integration and Management activities include: BSM Action Plan Items, Architecture and Integration, Business Integration, Management Processes, MITRE (Federally Funded Research & Development), and Program Management.

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

BUSINESS SYSTEMS MODERNIZATION (BSM)

FY 2006 Proposed Program Performance

FY 2006 BSM funding supports several IRS Strategic Goals and Objectives, most notably, Modernize the IRS Through Its People, Processes and Technology and Enhance Enforcement of the Tax Law. The FY 2006 BSM portfolio consists of projects including:

- **Customer Account Data Engine (CADE)** will replace the IRS' master files (the Service's repository of taxpayer information):
 - Initial Operations and Maintenance of all Releases of CADE deployed prior to December 31, 2006.
 - Develop and test CADE Release 2.1, which processes 1040 Full Paid or Refund for single taxpayers with Schedules A and B.
 - Program and Transition Management activities (consolidated across all CADE Releases).
 - Requirements Management and Engineering support to all CADE Releases.
- **Modernized e-File** will deploy greater electronic filing capability to businesses:
 - Deploy modernized electronic filing capabilities for Forms 1065 and 990T.
- **Filing & Payment Compliance** will increase IRS' ability to enforce tax compliance through system improvements and will provide support to enable private collection agencies to supplement the IRS' collection staff:
 - Develop the logical and physical design for the Private Debt Collection project.
- FY 2006 resources will also fund BSM "program-level" operations -- Core Infrastructure and Architecture and Integration and Management activities allow BSM to operate as a cohesive program, rather than a collection of disparate projects. Core Infrastructure activities include: Development, Integration and Testing laboratories and Shared (enterprise-wide) Infrastructure. Architecture, Integration, and Management activities include: Architecture and Systems Integration, Business Integration, Management Processes, MITRE (Federally Funded Research & Development), and Program Management.

These BSM activities will enable the development of subsequent modernized systems that improve customer service and compliance and supports Treasury's goal to "Manage the Government's Finances Effectively."

**HEALTH INSURANCE TAX CREDIT
ADMINISTRATION (HITCA)
APPROPRIATION**

NARRATIVE SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (EXHIBIT 3a)

Health Insurance Tax Credit Administration (HITCA)

The Health Insurance Tax Credit Administration (HITCA) Appropriation funds the cost to administer a refundable tax credit for health insurance to qualified individuals. In August 2002, the President Signed Public Law 107-210, the Trade Act of 2002, which, among other purposes, provides a refundable tax credit for the cost of health insurance for certain individuals who receive a trade readjustment allowance or a benefit from the Pension Benefit Guaranty Corporation (PBGC). The tax credit is equal to 65 percent of the health insurance premium paid by eligible persons to cover their own selves and qualifying family members.

Internal Revenue Service

ANALYSIS OF FY 2005 TOTAL APPROPRIATED LEVEL (TABLE 2.2)

	FTE	Amount (\$000)
FY 2005 President's Budget.....	17	\$34,841
Congressional Action.....	-	\$0
FY 2005 Enacted (P.L. 108-447).....	17	\$34,841
FY 2005 Appropriation Rescission (P.L. 108-447).....	-	(\$279)
FY 2005 Proposed Operating Level.....	17	\$34,562

DIGEST OF FY 2006 BUDGET ESTIMATES BY APPROPRIATION (TABLE 2.3a)

(Dollars in Thousands)

Health Insurance Tax Credit Administration (HITCA)	FY 2004 Actual Resources		FY 2005 Budget Estimate		FY 2006 Budget Estimate		INCREASE (+) OR DECREASE (-) FOR FY 2006					
							TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Appropriated Resources												
Health Care Tax Administration	17	\$34,794	17	\$34,562	17	\$20,210		(\$14,352)				(\$14,352)
Total, Appropriated Resources	17	\$34,794	17	\$34,562	17	\$20,210		(\$14,352)				(\$14,352)
Adjustments (+/-):												
Unobligated Balance Available, SOY		\$9,968		\$5,117				(\$5,117)				(\$5,117)
Unobligated Balance Available, EOY		(\$5,117)										
Unobligated Balance Expiring		(\$312)										
Recoveries of prior year Obligations		\$377										
FTE Adjustment	(5)											
Mandatory Appropriation - User Fees												
Transfers In/Out (all sources)												
Subtotal, Adjustments	(5)	\$4,916		\$5,117				(\$5,117)				(\$5,117)
Program Operating Level												
Health Care Tax Administration	12	\$39,710	17	\$39,679	17	\$20,210		(\$19,469)				(\$19,469)
Total, Program Operating Level	12	\$39,710	17	\$39,679	17	\$20,210		(\$19,469)				(\$19,469)

Numbers may not add due to rounding.

SUMMARY EXPLANATIONS OF FY 2006 REQUESTED CHANGES BY BUDGET ACTIVITY (TABLE 2.7a)		
Health Care Tax Credit Administration Appropriation (Dollars in Thousands)		
Requested Changes	Health Care Tax Credit Administration Total	
	FTE	Amount
ADJUSTMENTS TO BASE:		
a. Labor Annualization		12
b. Labor MCL		52
c. Non-Labor MCL (Includes transfer to cover full costing of HITCA)		976
d. Reduce Health Insurance Tax Credit Administration		(15,392)
TOTAL CHANGES, BUDGET AUTHORITY		(14,352)

Numbers may not add due to rounding.

SUMMARY OF PROGRAM INCREASES AND DECREASES (EXHIBIT 2a)

Health Insurance Tax Credit Administration

TOTAL REQUESTED OTHER CHANGES.....-\$14,352 K / 0 FTE

1. Reduce Health Insurance Tax Credit Administration.....-\$15,392 K / 0 FTE

Costs for the HITCA program have declined since implementation due to the IRS' active program oversight and management and several cost-cutting initiatives currently in process since March 2004. A comprehensive action plan outlining cost reduction initiatives was developed and is being followed to achieve these savings. This plan includes program improvements in customer service, reductions in information technology support, and space consolidation. The plan also includes protection of several key features of the program to assure continued delivery of high quality service while driving down program costs. For example, the plan assumes no extension of the current cycle for registration, maintenance of accurate and complete customer accounts, timely payments, and no increase in burden.

2. Adjustments Necessary to Maintain Current Levels.....\$1,040 K / 0 FTE

Funds are requested for the pay raise and annualization of \$1,041 K and non-labor items.

HEALTH CARE TAX ADMINISTRATION

The Health Care Tax Administration budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

The Trade Act of 2002 required the IRS to develop and operate a system to provide an advance, refundable tax credit for 65 percent of the cost of qualified insurance for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation. This activity maintains the administrative and direct support for the Health Care Tax Credit Program Office and its staff, who are charged with administering the program for the Service.

The IRS has established a program to pay the tax credit (65 percent portion of the premium), in advance, directly to health insurance providers on behalf of the taxpayer. Taxpayers have the option of either claiming the health insurance credit on their tax returns or choosing to have 65 percent of the premium paid on their behalf on a monthly basis. Taxpayers are required to pay their 35 percent share of the premium before the 65 percent can be paid.

This advance payment option is a complex undertaking for the IRS as it is a departure from existing IRS operations. The IRS is using a contractor to develop and administer the advance payment portion. Even with contractor support, however, implementation of the advance payment presents challenges for the IRS

For example, implementation requires that program systems, processes, and data be separated from current IRS tax administration systems. IRS systems are based on the receipt of information from taxpayers, such as tax returns and checks. Conversely, data for the advance payment is received from state agencies and health insurance providers, and payments are made directly to these health insurance providers. Thus, the IRS must develop new systems and processes that do not interact or exchange data with existing IRS systems to receive, retain, and verify data as well as issue payments.

In addition, the process is further complicated by the fact that numerous agencies including state workforce agencies, state insurance agencies, the Pension Benefit Guarantee Corporation, the Department of Labor, and the Department of Health and Human Services, as well as various health plans, insurers, and employers are all involved in determining whether the coverage applies and the degree of an individual's eligibility. The IRS must interact with and receive data from each of these sources before an advance payment is made. Administration of this new law is extremely complex due to its interrelationship with labor and health insurance laws. The IRS has little expertise with the complexities of health insurance and labor law, necessitating the acquisition of the skills and expertise necessary to implement and maintain this provision.

SUMMARY OF PROGRAM RESOURCES AND PERFORMANCE (TABLE 3.1)							
(Dollars in Thousands)							
HEALTH CARE TAX CREDIT							
HEALTH CARE TAX CREDIT BUDGET ACTIVITY	FY 2001	FY 2002	FY 2003	FY 2004		FY 2005	FY 2006
	Actual	Actual	Actual	Target	Actual	Estimate	Estimate
Treasury Goal: Managing the Government's Finances Effectively (F4)							
Treasury Objective: Collect Federal Tax Revenue When Due, Through a Fair and Uniform Application of the Law (F4A)							
Direct Resources			\$59,710	\$34,794	\$29,605	\$34,562	\$20,210
Total FTE			6	17	12	17	17
Health Care Tax Credit							
Direct Resources			\$59,710	\$34,794	\$29,605	\$34,562	\$20,210
Direct FTE			6	17	12	17	17
Reimbursables							
Reimbursable FTE							

Numbers may not add due to rounding.

EVALUATION OF FY 2005 PERFORMANCE PLAN (EXHIBIT 3b)

HEALTH INSURANCE TAX CREDIT ADMINISTRATION

Evaluation of FY 2005 Performance Plan compared with FY 2004

FY 2004 Performance

Based on improvements made in FY 2003, in FY 2004 the Health Care Tax Credit (HCTC) is still new as a concept for both individuals and taxpayers, and also new for IRS partners and communication channels. It is also complex in its ongoing reliance on entities in each of the states and the Pension Benefit Guaranty Corporation (PBGC), and in its dependency on participants and health plans. To mitigate these complexities in FY 2004, HCTC completed two surveys. From these surveys, IRS gained additional information about individuals eligible for HCTC. Other significant HCTC accomplishments include:

- Advance credit participation at the end of November 2004: 13,369.
- Cumulative enrolled since Program's Inception: 20,600.
- States with Qualified Plans (SQP): 39. The SQPs in Arizona and Washington are open for enrollment. Initial resistance was overcome and, due to the size of the potentially eligible population, California's establishment of an SQP is significant.
- Payment Summary: The Program has received over \$34 million from participants and paid more than \$94 million to health plans, including more than \$60 million paid by the IRS (65 percent portion).
- Calls handled in November: 9,553, which is approximately 7 percent lower than the previous 6-month average

FY 2005 Performance Plan

Costs for the HCTC program have declined since implementation due to the IRS' active program oversight and management and several cost-cutting initiatives currently in process since March 2004. Near-term overall annual program costs are on track for at least a 24 percent reduction in FY 2005 compared to FY 2004, with at least a 30 percent reduction in certain contract costs. A comprehensive action plan outlining cost reduction initiatives was developed and is being followed to achieve these savings. This plan includes program improvements in customer service, reductions in information technology support, and space consolidation.

FY 2006 PERFORMANCE PLAN (Exhibit 3c)

HEALTH INSURANCE TAX CREDIT ADMINISTRATION

FY 2006 Proposed Program Performance

Costs for the HCTC program will continue to decline. Due to the IRS' active program oversight and continued cost-cutting initiatives currently in process, annual program costs for FY 2006 are on track to achieve the savings proposed in this request. Cost reduction initiatives for FY 2006 assume that the potentially eligible population will remain in the range of 250,000 to 275,000 with an average monthly enrollment of 15,000.

SECTION 4

SUPPORTING MATERIAL

PROGRAM ASSESSMENT RATING TOOL REPORT (Exhibit 4b)

Internal Revenue Service Program: IRS Tax Collection	PARTed: FY 2004 Rating: Results Not Demonstrated
<p>IRS Tax Collection PART Recommendation 1: Increase collection staffing by 537 FTE.</p> <p>Actions Taken: The FY 2004 President's Budget proposed this increase. The President's Budget for FY 2005 included an initiative for an additional 664 revenue officer (332 FTE) in Field Collection and 250 collection representative hires (125 FTE) in the Small Business/Self Employed (SB/SE) Electronic/Correspondence Collection. The FY 2005 Budget also included an additional 66 FTE for the Wage & Investment (W&I) Automated Collection System initiative. However, the final enacted levels for FY 2004 and FY 2005 provided only partial funding for these hiring initiatives. The FY 2006 President's Budget includes a request for resources to hire an additional 518 collection employees as well as 46 tax examiners.</p> <p>IRS Tax Collection PART Recommendation 2: Reengineering and technology modernization efforts are ongoing to introduce risk-based targeting to target specific taxpayers with the most effective collection procedure (i.e., notice, phone call, or field visit).</p> <p>Actions Taken: One Reengineering Team focused their efforts on the following:</p> <ul style="list-style-type: none">• Implementing models to conserve ACS and field resources by identifying the nonfiler and balance due accounts that have the highest collection probability to accelerate contact and identify other accounts for limited contact.• Developing models to better identify high-priority work.• Monitoring and confirming the success of the Collection Reengineering models through several Research projects. In March 2003, the first project, the Collection Model Field Classifier Test, issued a final report confirming the success of the Collection Reengineering model. <p>Another Reengineering team focused their efforts on improvements in ACS:</p> <ul style="list-style-type: none">• Making better use of the predictive dialer.• Realigning the workforce to core phone hours.• Analyzing Automated Collection System (ACS) treatments.	

- Creating a performance support tool to provide employees with technical guidance while handling a call.
- Improving telephone operations to include the enhancements and expansion of scripts, automated services and leveraging of service delivery.
- Implementing a refocus on Collection training

The IRS is continually improving the processes employed in the collection of taxes due.

- New tools were developed to assist collection employees, e.g., contact recording, and desktop integration, impacting program efficiency.
- IRS.gov web pages were re-written to strongly encourage Direct Debit and convey payment options to taxpayers.
- New Internal Revenue Manual text for Automated Collection System (ACS) and toll-free has received the clearance. The new text places emphasis on the benefits of Direct Debit. New language incorporated into the ACS/toll free IRM emphasizes the use of automatic and electronic methods of payment over traditional installment payment methods. New procedures instruct that employees must encourage the use of Direct Debit when payroll deduction is not practical. If neither Direct Debit nor payroll deduction is practical, employees must encourage the use of other automatic payment methods such as Electronic Federal Tax Payment System (EFTPS) or credit card installment payments. Also, new procedures stipulate that if a taxpayer's actions have resulted in two or more defaulted installment agreements, the only installment payment method available to the taxpayer is payroll deduction or Direct Debit.
- Legislation to authorize the IRS to enter into contracts with private collection agencies for the Private Debt Collection effort passed the Senate and the House and signed into law on October 22, 2004.

Actions Planned or Underway:

- IRS has begun development of business requirements for implementation of the Private Debt Collection effort including initial work on a methodology to identify accounts that have potential for resolution within the Private Debt Collection process.
- FY 2004 Information Technology Investment Account funding for Private Debt Collection was requested and authorized by OMB and Appropriation sub-committees. Development work is pending, awaiting the results of a 60-day effort to validate the implementation and release strategy for Private Debt Collection.
- Support development of business requirements for Private Debt Collection which allow the IRS Collection organizations to build upon Private Debt Collection and facilitate the longer term goals of developing tailored treatments within Filing and Payment Compliance (F&PC). (September 2005)
- Improve telephone operations to include the enhancements and expansion of scripts, automated services and leveraging of service delivery. Currently, two major changes are planned to the Aspect "script" that will advise callers of alternatives to speaking to assistants. These changes are:
 - The addition to the TRIS menus of specific new Automated Applications designed to assist ACS callers

- The modification of the ACS scripts on Aspect to more clearly direct callers to the Automated Applications and to play new “informational” messages for callers queued in for ACS assistants
These changes are scheduled to take place January 2005.
- Continue to update Case Selection Models. (March 2005)
- Reengineer Collection processes to reduce the time to resolve accounts. (March 2005)
- Identify and implement non-filer strategy actions to address noncompliance. (March 2005)
- Support development of business requirements for Collection Contract Support within F&PC and re-scoped treatment streams. (September 2005)
- Enhance risk-based compliance approaches, for both collection and examination activities. Continue to ensure that proposed long-term solutions are aligned and technically compatible. Enhance and implement multiple treatment alternatives with the tone, treatment, and timing of interaction proportional to the risk of the taxpayer. (September 2005)
- Continue to monitor the success of the Collection Reengineering models to help prioritize inventory through several Research projects. These projects will help update the case selection models. The second year data analysis will be used to optimize the models. IRS plans to complete second year data analysis and optimize models. (March 2006)
- Pilot and fully deploy Desktop Integration to all ACS call sites and ACS Support sites. (April 2005)
- Continue to improve the process to better align resources and demand under the enterprise call routing technology. Implement a telephone forecast and work plan. (July 2006)
- Develop and implement Call Segmentation to increase the number of ACS calls that can be handled in an automated environment, thus allowing Collection representatives to handle calls that require personal interaction with taxpayers. (July 2006)
- Develop a TeleFile/Internet electronic funds withdrawal application for notice payments. (September 2006 - Contingent on additional funding.)
- Develop an electronic funds withdrawal (Direct Debit) application for installment agreements. (September 2006 - Contingent on additional funding)

Internal Revenue Service Program: Earned Income Tax Credit (EITC)	PARTed: FY 2004 Rating: Ineffective
<p>Earned Income Tax Credit PART Recommendation 1: IRS will delay refunds on returns deemed to be high risk for filing status or income errors while agents take action to resolve cases. High-risk returns will be identified by researching taxpayer historical compliance and by requiring new information on EITC returns. Status: Completed</p> <p>Earned Income Tax Credit PART Recommendation 2: IRS will require high-risk EITC applicants to pre-certify that the children claimed on their return are really qualifying children under EITC. Incorrectly claimed qualifying children have been a major source of EITC error. High risk applicants will be identified through databases such as the Federal Case Registry (information on child custody) and by focusing on taxpayers with characteristics linked to high error rates in compliance studies (e.g., relatives other than parents who claim a child for EITC purposes).</p> <p>Actions Taken: The IRS has completely revamped the way it approaches EITC administration. It adopted a broader mission statement for the program – maximize participation and minimize error – and is testing a number of “pre-refund” approaches to reduce filing status and income errors. These tests are all part of a broader plan to redesign the entire EITC program. To do this, the EITC Office developed a detailed business plan in the form of a Concept of Operations. The Concept of Operations is based upon EITC Task Force recommendations and the Commissioner’s five-point initiative. The Concept of Operations was developed in March 2003 and updated in March 2004 to include material that had been developed by the EITC Redesign teams since March 2003. Current EITC improvement efforts, including the proof of concept (POC) tests, are part of and consistent with the long-term vision articulated in the Concept of Operations.</p> <p>Actions Planned or Underway: In FY 2004, IRS conducted the POC tests (Qualifying Child Residency certification, Filing Status and Automated Underreporter) to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers. IRS is currently evaluating the results of the FY 2004 tests.</p> <p>In FY 2005, POC testing will continue. Testing may continue in 2006 based on experiences from the previous two tests. In FY 2007, IRS process and technology improvements will be implemented (including potential deployment of a certification requirement) based on analysis of the results from the 2004/2005/2006 tests of claimants whose returns were associated with a high risk of error.</p>	

Internal Revenue Service Program: Submission Processing	PARTed: FY 2005 Rating: Results Not Demonstrated
<p>Submission Processing PART Recommendation 1: Complete a successful implementation of the Integrated Financial Systems (IFS) project, which will provide Submissions Processing with the data necessary to calculate accurate, complete unit cost measures.</p> <p>Actions Taken: The IRS implemented IFS in October 2004 and completed data conversion from its current financial system historical data in November 2004.</p> <p>Actions Planned or Underway: Using IFS, IRS plans to:</p> <ul style="list-style-type: none"> • Allocate overhead costs based on proven business methodologies, that are consistently applied, easy to maintain and will support internal and external audits. • Track and control resources to a specific organizational unit and level of responsibility. • Provide both direct and indirect cost data to help move the Service forward in transitioning to a performance-based budget. • Identify and report the full cost of each program activity. • As the system is brought fully online, the Cost Module will be employed in the tracking and allocation of budgetary resources. Initially, the budget allocation methodology developed by the Budget Restructure project team and used in the formulation of the FY 2006 budget will be integrated into IFS functionality in order to provide a means for distributing support costs into the operational areas of the IRS budget. Then, as obligations and expenditures are recorded in the system, the Cost Module will track their appropriate distribution among the operational areas of the IRS budget. As additional budgetary data becomes available and Servicewide spending trends become evident, the Cost Module will be employed to develop a more accurate methodology for use in building a performance-based, distributed-cost budget from the bottom up. 	

Submission Processing PART Recommendation 2:

Implement the Modernized e-File IT project to facilitate further e-file growth.

Actions Taken:

In early 2004, IRS implemented a new Modernized e-File system. The new system provides corporations and tax-exempt organizations the option to transmit tax return data using a secure Internet connection in place of a modem. Taxpayers and tax professionals can prepare the returns using IRS-approved software developed by one of several software companies. The returns are then transmitted to IRS through a secure Internet site accessible only to registered users. In Release 1, 59 forms were available for the new electronic filing process, including corporate returns 1120 and 1120S and forms 990, 990EZ, 1120POL and 8868. In July 2004, Release 2 added the remaining 43 forms that may be attached to Forms 1120 and 1120S. In 2004, MeF accepted 14,923 Form 1120, more than 158 percent of the projected volume and 36,946 Form 1120S, more than 260 percent of the projected volume. Over 1,000 returns in the 990 family were also received electronically.

IRS plans additional releases covering multiple years to add a new Fed/State system and to also move the existing electronic filing programs for forms 1040, 1041, 1065 to MeF. This effort has many deliverables, covering multiple years before the final release, currently scheduled for completion in January 2010.

Submission Processing PART Recommendation 3:

Develop appropriate short and long-term outcome goals.

Actions Taken:

The following measures were developed for FY 2004, which reflect the purpose of the program.

- Percent of Individual Returns Processed Electronically – FY 2004 Actual: 47 percent
- Percent of Business Returns Processed Electronically – FY 2004 Actual: 17 percent
- Individual Return Deposit Timeliness – paper – FY 2004 Actual: \$407 (lost opportunity cost)
- Business Return Deposit Timeliness – FY 2004 Actual: \$424 (lost opportunity cost)
- Individual Return Deposit Error Rate – FY 2004 Actual: 3.5 percent
- Business Return Deposit Error Rate – FY 2004 Actual: 0.95 percent
- Refund Timeliness - Individual (paper) – FY 2004 Actual: 98.3 percent
- Refund Error Rate with Systemic Errors – Individual (paper) FY 2004 Actual: 4.9 percent
- Business Master File Refund Interest – FY 2004 Actual \$2,198

Note: Long-term goal of achieving 80 Percent of all tax and information returns processed electronically by 2007.

Actions Planned or Underway:

- Track measures through fiscal year.
- Continue to develop and implement improved long-term goals.

PROGRAM ASSESSMENT RATING TOOL REPORT (Exhibit 4b)

Internal Revenue Service Program: IRS Taxpayer Service	PARTed: FY 2006 Rating: Adequate
<p>IRS Taxpayer Service PART Recommendation 1: Set long term goals during 2005.</p> <p>Actions Planned or Underway: The IRS is currently developing long term goals for all of its programs. These long term goals should be published in the Spring of 2005.</p> <p>IRS Taxpayer Service PART Recommendation 2: Convert its efficiency measures to cost based rather than staff year based metrics as accounting systems improve and use them in the 2007 performance budget (e.g., cost per call answered). IRS will also add efficiency measures for each taxpayer service process for internal management purposes.</p> <p>Actions Planned or Underway</p> <ul style="list-style-type: none">• The IRS is currently in the process of implementing the Integrated Financial System which will provide the data necessary to calculate accurate, complete unit cost measures. Until such time as complete costing data is available, staff year information will be utilized.• The IRS currently reports the efficiency measure <i>Customer Contacts Resolved per Staff Year</i>. This measure includes Assistor Calls Answered, Automated Calls Answered, Web Services Completed, Electronic Services, and Paper Responses. This information is reported monthly in the Business Performance Summary report.	

IRS Taxpayer Service PART Recommendation 3:

Use customer satisfaction measures in its published performance budget.

Actions Planned or Underway:

The IRS continues to monitor Customer Satisfaction measures internally but is working with Treasury to reduce the number of measures reported externally. Therefore, IRS is recommending discontinuance of customer satisfaction measures for external reporting purposes. The IRS will continue to monitor customer satisfaction information as part of the balanced measures that are used to manage its programs.

IRS Taxpayer Service PART Recommendation 4:

Explore the mix of service options (phones, walk-in, Internet, volunteer services) to ensure that the most efficient and effective means is used to deliver service.

Actions Planned or Underway:

- The Budget includes \$134 million in program reductions to taxpayer service programs. These savings will be achieved through a variety of reforms including decreasing dependence on walk-in taxpayer service centers and increasing reliance on more efficient telephone and Internet service options.
- The IRS is continually making program changes to provide the most efficient and effective means necessary to deliver service, e.g., enhancements to the Internet Fact-of-Filing (IRFOF) application and e-Services.
- The IRS operates 38 self-help kiosks in 20 states, and increases service options during the filing season by offering service in alternate locations such as shopping malls, libraries, and other government offices. In FY 2005, the IRS plans to explore efforts to offer a service delivery alternative that uses technology to provide traditional assistance in a virtual face-to-face environment.

IRS Taxpayer Service PART Recommendation 5:

Improve the accuracy of information provided to taxpayers.

Actions Planned or Underway:

- An improved interactive Probe and Response Guide became effective for use on 12/01/04. Emphasis is placed on prioritizing staffing of tax law applications while successfully preparing for the filing period. IRS continues to hold ongoing conference calls to focus the sites on correcting common errors. The IRS has also initiated Six Sigma teams to review and develop improvement action related to the work processes and procedures used to address taxpayer account issues.
- The IRS has implemented Embedded Quality (EQ) to improve the accuracy of responses to customers. EQ is a review system that standardizes criteria for evaluating employee performance, pinpoints training opportunities, and links to business measures.

IRS Taxpayer Service PART Recommendation 6:

Research the impact of taxpayer service programs on voluntary compliance.

Actions Planned or Underway:

- The IRS will explore efforts to study customer service impacts as part of its FY 2006 Research Plan.

IRS Taxpayer Service PART Recommendation 7:

Improve financial information as part of the IRS-wide financial management improvements.

Actions Planned or Underway:

Using IFS, IRS plans to:

- Allocate overhead costs based on proven business methodologies, that are consistently applied, easy to maintain and will support internal and external audits.
- Track and control resources to a specific organizational unit and level of responsibility.
- Provide both direct and indirect cost data to help move the Service forward in transitioning to a performance-based budget.
- Identify and report the full cost of each program activity.

IRS Taxpayer Service PART Recommendation 8:

The Budget streamlines taxpayer service programs by reducing dependence on less efficient walk-in service centers and increasing reliance on telephone and Internet service.

Actions Planned or Underway:

As noted above, the Budget includes \$134 million in program reductions to taxpayer service programs. These savings will be achieved through a variety of reforms including decreasing dependence on walk-in taxpayer service centers and increasing reliance on more efficient telephone and Internet service options. The IRS continually increases the efficiency of TACs by channeling its limited resources to services that customers cannot obtain elsewhere. TACs provide an option for customers preferring personal, face-to-face tax help. In the past two years the IRS has redirected transcript requests, reduced the availability of varied forms, and limited courtesy tax return preparation. To support the modernization efforts of the IRS, the use of free on-line services, such as, “Free File” and “Where’s My Refund?” is promoted.

PROGRAM ASSESSMENT RATING TOOL REPORT (Exhibit 4b)

Internal Revenue Service Program: IRS Taxpayer Advocate Service	PARTed: FY 2006 Rating: Moderately Effective
<p>IRS Taxpayer Advocate Service PART Recommendation 1: Develop a unit cost measure for its casework by 2006.</p> <p>Actions Taken:</p> <ul style="list-style-type: none">• The National Taxpayer Advocate established a task force to study to develop a new time reporting system, especially for Taxpayer Advocate Service casework. One of the objectives is to obtain a means of associating hours worked with specific cases in inventory. <p>Actions Planned or Underway:</p> <ul style="list-style-type: none">• The task force is examining a variety of possible solutions, including off-the-shelf software products. Funding is a major concern, as the Taxpayer Advocate Service (TAS) does not have any discretionary resources. Any monies devoted to a new time reporting system would have to be diverted from an existing program, e.g., training or program travel.• TAS will explore the possibility of utilizing Full absorption costing model and will develop a measure for full absorption costing.	

IRS Taxpayer Advocate Service PART Recommendation 2:

Explore other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship.

Actions Taken:

- Taxpayer Advocate Service-Systemic Advocacy (SA) has implemented quality standards for all project work. The standards encompass application of facts and procedures, interpretation of tax law and IRS procedures, quality of research, reasoning skills, negotiation skills and innovation, writing skills, quality of recommendations, utilization of time and completed staff work. Random sampling and review of SA case work will be done to ensure the standards are met.

Actions Planned or Underway:

- Taxpayer Advocate Service (TAS) will implement the provisions of IRC Section 7803(c)(2)(B)(ii)(VI). The Office of the Taxpayer Advocate will include in the December 31st Annual Report to Congress an inventory of items to include:
 - Initiatives the Office of the Taxpayer Advocate has taken on improving taxpayer service and the Internal Revenue Service responsiveness;
 - Recommendations received from individuals with the authority to issue Taxpayer Assistance Orders under IRC Section 7811; and
 - Summaries of at least 20 of the most serious problems encountered by taxpayers, including a description of the nature of such problems.

The inventory will identify items for which:

- Action has been taken and the result of such action;
- Action remains to be completed and the period during which each item has remained on such inventory;
- No action has been taken, the period during which each item has remained on such inventory, the reasons for inaction, and identifies any IRS official who is responsible for such inaction.

TAS will begin the process within the next 60 days by providing the IRS with the list of items from the FY 2004 NTA Annual Report to Congress. IRS will have 90 days to respond to the list of recommendations. In October 2005, TAS will circulate the recommendations to the IRS for update on actions taken.

- TAS will track how many congressional hearings or letters result from TAS legislative recommendations; the number of bills including TAS recommendations that are introduced or passed.
- Through outreach efforts, TAS continues to raise taxpayer awareness of the problems facing taxpayer that have been identified by TAS. An awareness of these issues helps prevent taxpayers from experiencing hardships. TAS will explore methods to measure the effectiveness of outreach efforts and the impact these efforts have on resolving systemic problems.
- TAS will continue to utilize its research staff to develop other ways to measure its effectiveness in solving systemic problems leading to taxpayer hardships.

IRS Taxpayer Advocate Service PART Recommendation 3:

Improve financial information as part of the IRS-wide financial management improvements.

Actions Taken:

The IRS is in the process of implementing the Integrated Financial System. The accounting and financial plan execution portions of the system commenced with the start of Fiscal Year 2005 (October 2004), and the budget formulation and cost accounting modules are scheduled to be implemented later this fiscal year. The new system is intended to remedy the concerns noted in past Government Accounting Office financial audits of the IRS.

Actions Planned or Underway:

The Taxpayer Advocate Service is actively supporting the service wide Integrated Financial System implementation effort, including training its employees on how to use the new system. The Taxpayer Advocate Service is also working with representatives of the CFO and other business units to develop standardized management information reports for all of the IRS

IRS Taxpayer Advocate Service PART Recommendation 4:

Further improve case quality.

Actions Taken:

The Taxpayer Advocate Service's cumulative quality index stands at 91.47 Percent compared to 84.74 Percent at the end of Fiscal Year 2003. This has increased substantially from Fiscal Year 2000 when quality was at 67 Percent. The Taxpayer Advocate Service has established a goal of 91 Percent for Fiscal Year 2005 and 92 Percent for Fiscal Year 2006.

Each Area/local office analyst has been trained and empowered to analyze their quality results and evaluate national trends for improvement. Process changes such as the systemic tracking of customer follow-up dates, use of a buddy system or similar approach to make critical contacts even if the advocate is away, use of TAMIS enhancements to properly reflect the audit trail utilizing radio buttons, etc. have been adopted by many offices. An Annual Report on Quality captures Area/local offices enhancements.

Actions Planned or Underway:

- Budget permitting, a quality visitation program is planned this fiscal year to provide analytical and systems analysis training to new quality analyst.
- Monthly quality conference calls are held to discuss quality-related issues and to promptly share improvement initiatives.
- "Quality at a Glance" is a relatively new report developed to encourage easy reference of current accomplishments/trends, highlighting opportunities for improvement.
- A presentation on quality is planned for the Congressional Affairs Program/Local Taxpayer Advocate Leadership Conference in February, 2005.

CROSS-CUTTING COORDINATION EFFORTS (EXHIBIT 4c)

The Internal Revenue Service (IRS) has formed many strategic partnerships with other Federal agencies, state and local governments, and private sector organizations to help achieve its mission, goals, and objectives. The crosscutting coordination efforts outlined below help to improve the IRS' customer service, manage compliance risks, and make tax administration more efficient. Note that the release of federal tax returns and/or tax information will only take place in compliance with the confidentiality requirements of Title 26, Section 6103 of the Internal Revenue Code of 1986.

Taxpayer Service

Performance Goals:

1. Percent Individual Returns Processed Electronically
2. Customer Contacts per Staff Year
3. Percent of Eligible Taxpayers Who File for Earned Income Tax Credit

State and Local Partnerships The IRS Governmental Liaison program oversees more than 500 different partnering initiatives between IRS and state and local governmental agencies. These initiatives are aimed at reducing taxpayer burden, increasing compliance, and saving government resources. They cover the range of pre-filing, account services, and compliance activities related to tax administration. Examples include co-located joint customer service operations, joint revenue agent training, compliance checks, data sharing, excise fuel tax compliance coordination, audit results and exam reports sharing, joint press releases, access to state databases, and joint fed/state e-file. The IRS is partnering with interested states to implement an integrated state registration and federal employer identification number process. This will benefit businesses because it provides both the state and federal numbers on-line without the burden of re-entering redundant data. This initiative is in direct support of the President's Management Agenda, electronic government initiative.

IRS partnered with a state organization, the Federation of Tax Administrators (FTA), to form a joint federal/state FTA Technical Advisory Group (TAG) to promote cooperative decision-making involving existing and new fed/state e-filing efforts. The TAG assures greater collaboration between state and IRS electronic initiative priorities and strategies, which ultimately maximizes business value for both the IRS and state tax administrations while reducing burden and increasing service for taxpayers. In addition, the IRS is partnering with state tax agencies and the Tax Implementation Group for Electronic Commerce Requirements Standardization to develop federal/state e-file solutions that reduce taxpayer burden and facilitate single point filing for federal and state tax returns.

Internal Revenue Service

IRS is engaged in many joint compliance efforts with state tax agencies that reduce duplication of resources at the federal and state level, increase compliance, and reduce burden on taxpayers. IRS partners with state and local non-tax agencies to implement congressionally mandated programs related to tax administration, such as the Health Coverage Tax Credit.

The IRS also engages in cooperative efforts with the State Vital Statistics offices and developers of Commercial Off-The-Shelf tax return preparation applications to maintain consistency in software programming with the requirements of the Earned Income Tax Credit. The Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Program also work with state and federal agencies to provide tax assistance to low income, elderly, and non-English-speaking taxpayers. In some states, equipment and space is provided by the state functions for these sites and in other states, training is provided by IRS entities for the volunteers in other states. IRS partners with state and local governments to develop non-traditional one-stop customer service sites that provide convenient and comprehensive service.

The IRS uses the Federal Unemployment Tax Act (FUTA) certification program to verify with state agencies that credits claimed on Form 940 or Schedule H were actually paid into the states' unemployment funds. The 50 states, District of Columbia, Puerto Rico, and the Virgin Islands participate in this program.

Make Filing Easier IRS participates in an Inter-agency Agreement with the Department of Labor (DOL) to process Return of Employee Benefit Plan forms (Form 5500) shared by Labor, IRS, and the Pension Benefit Guaranty Corporation (PBGC). IRS and DOL share the costs of Form 5500 processing. The Employee Retirement Income Security Act Filing Acceptance System (eFAST) was created by these agencies to streamline pension plan reporting and disclosure per a National Performance Review initiative. The DOL fully funded the development and scale-up costs of enhancing the prototype, and requires a commitment of funding from IRS for each processing year. IRS continues to work cooperatively with the other agencies charged with enforcing the Employee Retirement Income Security Act of 1974 (ERISA). Employee Plans, DOL and PBGC work together to continuously improve the annual reporting and disclosure requirements of Titles I and II of ERISA, as well as to administer compliance programs and develop and issue guidance to the employee benefit community.

IRS created a Permanent Disaster Response Team, which, in coordination with the Federal Emergency Management Agency, is to assist taxpayers in clarifying and resolving tax matters associated with a Presidential declared disaster. One of the duties of the Disaster Response Team is to postpone certain tax-related deadlines for up to 120 days for taxpayers affected by a Presidential declared disaster. For example, the Internal Revenue Service announced special tax relief for taxpayers in the Presidential Disaster Area that was struck by Tropical Storm Bonnie and Hurricane Charley beginning August 11, 2004.

Internal Revenue Service

The IRS promotes a customer-centric focus through the following programs: Outreach to taxpayer and practitioner groups that produce real-time data on current tax administration problems from the perspective of IRS stakeholders; Systemic and Case Advocacy, performed by the Taxpayer Advocate Service and applied jointly with the IRS operating divisions in adjusting tax administration processes and policies; Taxpayer Advocacy Panel (TAP); and the Low Income Tax Clinic (LITC). These activities address the most common problems encountered by taxpayers and provide valuable feedback to support legislative changes recommended by the IRS to Congress.

IRS is partnering with the Department of Labor, Department of Health and Human Services, and the Pension Benefit Guarantee Corporation to implement the Trade Act of 2002 legislation. Form 8885 was revised to reflect legislative changes to ensure eligible taxpayers receive the advanceable and refundable tax credit for defraying the cost of health insurance for displaced workers.

President's Management Agenda e-Government Initiatives In November of 2001, the Office of the Management and Budget (OMB) established, through its Quicksilver Task Force, 24 e-government initiatives that are part of the President's Management Agenda. These initiatives are designed to improve Government-to-Government (G2G), Government-to-Business (G2B), and Government-to-Citizen (G2C) services while improving the internal efficiency and effectiveness of the Federal Government. Under this umbrella of initiatives, IRS is assigned the managing partner for two: Free File and Expanding Electronic Tax Products for Businesses. Both of these initiatives support the goals and requirements set forth in the IRS Restructuring and Reform Act of 1998 and are aligned with IRS' strategic goals and objectives.

The first initiative, Free File, is designed to make tax return preparation and filing more accessible by providing free online tax preparation and filing services to at least 60 percent of the taxpaying population. To accomplish this initiative, IRS partnered with members of the tax software community (i.e., Free File Alliance, LLC) and launched the program during the 2003 filing season. Other key partners for successful implementation include the Department of Treasury and OMB. In 2003, approximately 2.8 million taxpayers took advantage of these opportunities to file their Federal tax return for free over the Internet. The program was launched for a second year in 2004. As of October 20, 2004, the Free File companies processed over 3.51 million Free File returns - an increase of 26 percent from 2003. Fifteen companies participated during the entire 2004 filing season.

The Expanding Electronic Tax Products for Businesses initiative delivers benefits through projects that reduce the number of business tax forms that must be filed, provide timely and accurate tax information to businesses and increase the availability of electronic tax filing. Form 94x (Employment Tax Return) processing was implemented in January 2003 and resulted in about 1.9 million returns filed so far. The Internet Employer Identification Number (EIN) product has processed about 2.3 million EINs since its implementation in April 2003. Forms 1120/1120S (Corporate Income Tax Return) and 990 (Return of Organization Exempt from Income Tax) were implemented on the Modernized e-File system in February 2004, resulting in approximately 51,000 and 1,000

Internal Revenue Service

returns received respectively by December 2004. In addition to the software development companies, key partners for successful implementation included the Department of Treasury, OMB and Small Business Administration.

In addition to managing two of the e-government initiatives, IRS also supports other managing partners within the e-government portfolio. Some of these partners and projects include: General Services Administration (e-Authentication and eTravel); Small Business Administration (Business Gateway); Department of Labor (GovBenefits); and Department of Education (ELoans).

Database Sharing The IRS Governmental Liaison Data Exchange Program manages the exchange of sixteen different data extracts with specified state and city taxing agencies, under IRC 6103(d). The data extracts are shared for purposes of improving tax administration, and each receiving agency adheres to strict need-and-use and safeguard requirements designed to protect the data. The data help these taxing authorities to reduce burden on taxpayers, increase compliance, and save government resources by eliminating duplicate government effort.

The IRS has partnered with states to implement an initiative that reduces burden on small businesses, saves IRS resources, and improves employment tax compliance. This initiative matches data from state employment agency databases with IRS files, to eliminate unnecessary compliance contacts on out-of-business taxpayers, and to improve employment tax compliance by businesses. The IRS has implemented a system for providing revenue agent report data electronically to the states. This automates the paper process, saves IRS and state resources, and increases the potential for states to collect revenue. This system ensures that our obligation to provide this information to the states is met. Most importantly, this process increases the state revenue potential, and directly supports the e-government goals of joint federal/state tax administration.

The Social Security Administration provides enhancements to their Social Security Number database, which interfaces with IRS' databases to validate Taxpayer Identification Numbers. IRS continues to coordinate with Health and Human Services to obtain data that can be used as a filter for the purpose of administering those sections of the Internal Revenue Code of 1986 that grant tax benefits to individuals supporting a child and/or providing a residence for a child.

The IRS, working with the Prime Alliance, rolled out the initial phase of the Transcript Delivery System in September 2004. The system provides return and account transcripts, W-2s and verifications of non-filing, electronically. The Federal Emergency Management Agency and the Small Business Administration have contacted IRS seeking an electronic means to verify income for disaster relief programs and federally backed loan, grant or subsidy guarantees. The Departments of Agriculture, Veterans Affairs, and Housing and Urban Development have expressed an interest in this system as well. Access will be staggered with the first users being IRS employees, state tax agencies, tax practitioners, and colleges and universities working with the Department of Education to administer Free Application for Federal Student Aid student loans.

Internal Revenue Service

IRS is working with the United States Postal Service on a National Change of Address program to update master file addresses with taxpayer address information from the Postal Service. IRS is receiving weekly database updates to the database from the Postal Service. This has reduced redundant mail, mail sent to the same taxpayer at different addresses, and undeliverable mail. The IRS is currently partnering with the Department of Health and Human Services and the Social Security Administration to secure data for use in the Dependent Database. This database will be used to identify Earned Income Tax Credit recipients who may be non-compliant.

Education and Assistance Programs IRS deployed staff in the field to work with the Pension Benefit Guaranty Corporation, state Departments of Workforce Assistance, and state Departments of Labor to help citizens get health coverage. IRS Governmental Liaisons are answering questions and coordinating with state agencies to implement the Health Coverage Tax Credit. IRS is registering eligible citizens for the advance health coverage tax credit. IRS is playing a critical role in the outreach, education and cross-governmental agency coordination of this presidential initiative. This helps people who are otherwise unable to afford health care continue to make their payments.

IRS is currently partnering with the department of Housing and Urban Development (HUD) to post educational information about the Earned Income Tax Credit (EITC) on their kiosks. HUD's target population closely aligns with the potentially eligible EITC claimants. HUD currently has 106 kiosks operating in the 49 states and Puerto Rico and estimates that appropriately 330,000 people per year use the HUD kiosks.

IRS continues to expand business partnerships with established institutions, including the Small Business Administration and industry/professional organizations, to provide specialized education and assistance programs. IRS has already partnered with the Small Business Administration to create tax products and services that make it easier to access and understand tax information, services, and products. For example, the Small Business Resource Guide CD-ROM was created and produced by the IRS as a major step to addressing the educational tax needs of the small business community. The development of the CD-ROM was a collaborative effort among IRS, Small Business Administration, U.S. Department of Labor, and Social Security Administration subject matter experts.

In addition, IRS continues to build community coalitions that provide tax education, preparation and assistance to reach targeted taxpayer segments. One recently established coalition utilizes the resources of the United Way, the Federal Reserve Bank and state government agencies to develop initiatives that provide education and outreach on the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to its low-income citizens. This is just one example of the way IRS is expanding its programs to reach EITC and CTC-eligible taxpayers while empowering cities and communities.

Enforcement

Performance Goals:

1. Individual Returns Examined-Field (Small Business/Self Employed and Large & Mid-Size Business) > \$100,000
2. Criminal Investigations Completed
3. Automated Collection System Closures - Taxpayer Delinquent Accounts
4. Field Collection Cases Closed - Taxpayer Delinquent Accounts
5. Number of Cases Closed - Automated Underreporter

State and Local Partnerships The IRS is partnering with some local and several state tax agencies to deal with abusive tax avoidance transactions and high-income non-filers, and to improve the mutual exchange of compliance enforcement data. Specifically, the Small Business and Self Employed operating division and the Office of Governmental Liaison established a memorandum of understanding (MOU) for sharing tax enforcement information and engaging in cooperative efforts by state tax agencies and IRS to combat abusive tax avoidance transactions. The agreements creating this partnership are designed to enable both state and federal governments to move more aggressively in the fight to ensure all taxpayers pay their fair share.

To date, 48 states, the District of Columbia, New York City, and the Virgin Islands have signed the MOU and are actively engaged in implementation with the IRS. Under the terms of the agreement, information will be provided to participants twice yearly. The first data sharing was completed in January 2004 where more than 27,000 leads on taxpayers engaged in abusive transactions were shared with the States/Cities. In July 2004 we provided the states/cities with an additional 7700 leads about taxpayers potentially involved in abusive tax avoidance transactions.

Criminal Investigation Criminal Investigation (CI) enforces the criminal provisions of the Internal Revenue Code (IRC), the Bank Secrecy Act, and the Anti-Money Laundering statutes. CI partners with internal and external stakeholders to investigate significant tax violations and financial crimes. External stakeholders include other federal and state law enforcement agencies. The United States Attorney's office invites CI on grand jury investigations that involve violations under CI's purview and prosecute CI's cases in Federal district court. The vigorous enforcement of the criminal statutes within CI's jurisdiction is an integral component of the IRS' strategic goals.

CI special agents are experts at gathering and analyzing complex financial information from numerous sources. In coordination with the U.S. Attorneys' offices, CI has initiated interagency financial task forces and Suspicious Activity Review Teams to identify and develop financial investigations.

Internal Revenue Service

The IRS Commissioner participates on the National Corporate Fraud Task Force established by President Bush in July 2002. CI representatives are members of local Corporate Fraud Task Forces throughout the U.S. and participate in many joint corporate fraud investigations. IRS CI special agents conduct complex forensic financial investigations of both corporations and their principal officers. Agents document untaxed personal enrichment of corporate officers as well as the manipulation of corporate records and funds that impede the Internal Revenue Service and defraud stockholders and the American public.

The IRS' civil and criminal divisions are working jointly with the Department of Justice to halt the growth of abusive tax schemes. These schemes, which frequently involve movement of U.S. funds offshore, impede the Service's ability to identify and collect the full amount of taxes due to the U.S. Treasury. IRS utilizes both criminal penalties and civil injunctions to dismantle organizations that promote abusive tax shelters and schemes.

CI has established Memorandums of Understanding (MOUs) with some state taxing authorities. The MOUs outline terms of the agreement to share information with the states on the questionable refund program (QRP) and the return preparer program (RPP) cases. This allows states to review state returns for taxpayers that the IRS has determined to be non-compliant.

CI played a key role in the development and implementation of the National Money Laundering Strategy (NMLS). Under the strategy, seven areas were designated as High-Risk Money Laundering and Related Financial Crime Areas (HIFCAs). The HIFCAs are used to coordinate law enforcement efforts at the federal, state, and local level to combat money laundering, whether based on drug trafficking or other criminal activity. CI concentrates its narcotics efforts on the most significant cases, in particular, on high-level multi-agency narcotics investigations warranting Organized Crime Drug Enforcement Task Force (OCDETF) designation. CI also supports other Department of Justice initiatives including Public Corruption, High Technology Crimes, and International Commerce. Additionally, CI coordinates with the Financial Crimes Enforcement Network (FinCEN), a multi-agency, multi-source intelligence network. FinCEN serves as a central source of financial information and intelligence in support of Federal, State and Local law enforcement agencies in the detection and investigation of narcotics, money laundering, and other financial crimes. CI maintains special agent staffing at FinCEN to assist CI personnel with their investigations.

CI plays an important role in detecting, disrupting and dismantling terrorist financing operations at home and abroad. IRS actively supports the national effort to combat terrorism through its participation in the Federal Bureau of Investigation's Joint Terrorism Task Forces (JTTFs) and the U.S. Attorneys Offices' Anti-Terrorism Advisory Councils (ATAC). CI's Counterterrorism program is critically important in identifying and investigating the financial crimes and financing methods related to terrorist groups. CI has exclusively dedicated the Garden City Lead Development Center to research terrorism financing with particular focus on the use of charitable tax-exempt organizations to fund terrorist activities. The Garden City Project is a proactive technology project using

Internal Revenue Service

distinctive analytical capabilities to conduct link analysis, data matching, and proactive data modeling designed to manage counterterrorism financial data in a way that leverages CI's expertise and enhances communication. Domestically, CI conducts investigations of domestic extremist elements that espouse anti-government, anti-compliance philosophies or file fictitious financial instruments.

Database Sharing A provision of the Tax Reform Act of 1997 authorized the collection of tax debts through continuous levies on Federal payments. As a result, IRS entered into an interagency agreement with the Financial Management Service (FMS) that allows IRS to provide information on delinquent taxpayers who receive Federal payments. The agreement also requires IRS to reimburse FMS for each Federal payment it processes for the IRS. For fiscal year 2004, IRS paid over \$6.3 million to FMS. The estimated cost for FY 2005 is \$9.9 million, including \$1.5 million already incurred in FY 2005. Authority for FMS to offset its fee from the levy proceeds is included in pending tax legislation. The result of this legislation will impact the agreement and benefit the IRS where appropriated funds will not be necessary to fund the agreement between these two agencies.

IRS continues to solicit state taxing agencies to participate in the State Income Tax Levy Program. This program issues a levy to the state for potential income tax refunds of individuals who have an unresolved IRS tax debt. The IRS negotiates and enters into an agreement with each participating state regarding administrative procedures. The IRS has encouraged states to use the Electronic Federal Tax Payment System (EFTPS) to remit payments. The vast majority of states cite lack of resources as the main reason preventing them from utilizing EFTPS. Currently remittances are made by check and data is exchanged by tape.

IRS is currently partnering with the Social Security Administration, Federal Trade Commission, State Department and Treasury Inspector General for Tax Administration (TIGTA) to address Individual Tax Identification Number (ITIN) issues relating to identity theft and national security. The ITIN Program Office, which is now a part of Submission Processing, is concentrating on the continued utility of the ITIN program to facilitate participation in the tax system, the restructuring of the program to deter inappropriate use of the ITINs, changes to employee procedures for proper implementation, developing system improvements (e-services and real time processing systems), determining resources needed to properly manage the program, methods to effectively curtail fraud, expanding and improving the Acceptance Agent program, and other deliverables as a result of the ITIN Task Force recommendations.

Near term completed actions include coordination between CI and Modernization and Information Technology Services (MITS) to screen Form W-7 ITIN applications against the Office of Foreign Assets Control (OFAC) "Terrorist Watch List" to address Homeland Security issues. Letters were issued to the state Department of Motor Vehicles and Governors emphasizing that: ITINs are for tax purposes only and should not be accepted as identification documents for issuing a drivers license; applicants are required to demonstrate a tax purpose in seeking an ITIN; the number of allowed identification documents was reduced; and the ITIN appearance

Internal Revenue Service

was changed from a card to a letter to avoid similarities with a social security card. In addition, a comprehensive communication strategy was implemented for educating impacted stakeholders on the changes and the intended purpose of ITINs. The Program Office is working with the Federal Trade Commission to obtain access to the FTC identity theft database. Ultimately this will be available to IRS functions to consider in workload selection and could also lead to establishing a Masterfile indicator.

Document Matching The Combined Annual Wage Reporting Program is a joint effort between IRS and the Social Security Administration to reconcile employer payroll tax data filed with the IRS and wage data reported for Social Security purposes on forms W-3 and W-2. The result is a more accurate recording of employee-employer contributions and enhanced integrity of the Social Security Trust Fund by ensuring that employee earnings are timely and properly posted to Social Security's database. IRS and external stakeholders such as the Department of Justice Tax Division have committed to supporting the Trust Fund Compliance Initiative with legal action when necessary.

The Automated Underreporter Program (AUR) has a joint effort with the Social Security Administration (SSA) to resolve cases with stolen identity issues where the wage data reported to SSA is incorrect. By providing corrected wage data to SSA, we are able to establish a more accurate recording of employee contributions and enhance the integrity of the Social Security Trust Fund. AUR is continuing to partner with SSA to develop an electronic data system for AUR to forward corrected information to SSA.

The AUR Program partners with numerous state governments sharing agreed case data. The IRS negotiates and enters into an agreement with each participating governmental agency regarding procedures to administer the program.

DETAIL OF FULL-TIME EQUIVALENT POSITIONS BY CATEGORY (TABLE 4.1)**IRS****(Excludes Reimbursable FTEs)**

Position Category	FY 2004 Actual	Estimated Operating Level		Changes
		FY 2005	FY 2006	
Statutory executive positions	277	277	277	-
Policy/program professional staff.....	72,430	72,295	73,257	962
Revenue Agent	11,861	12,414	13,001	587
Revenue Officer	5,180	5,284	5,734	450
Special Agent 1/	2,442	2,547	2,818	271
Tax Compliant Officer	988	986	997	12
Other	51,959	51,064	50,707	(358)
Secretarial and clerical.....	8,772	8,756	8,756	-
Crafts and custodial.....	283	283	286	3
Subtotal	81,762	81,611	82,576	965
Part-time & temporary full-time equivalent positions.....	15,835	14,823	14,434	(389)
Total full-time equivalent positions	97,597	96,434	97,010	576

Numbers may not add due to rounding.

1/ FTE increase in FY 2006 partially due to the transfer in of IRS' portion of the Interagency Crime and Drug Enforcement (ICDE)

Internal Revenue Service

DETAIL OF FULL-TIME EQUIVALENT POSITIONS BY GRADE (TABLE 4.2)
IRS
(Excludes Reimbursable FTEs)

Grade	FY 2004 Actual	FY 2005 Estimated Operating Level	FY 2006 Budget Estimate	Changes
Executive Level 1.....				
Executive Level 2.....				
Executive Level 3.....	1	1	1	
Executive Level 4.....				
Executive Level 5.....	1	1	1	
Subtotal.....	2	2	2	-
Senior Executive Service Pay Band 1/	275	275	275	
Subtotal.....	275	275	275	-
GS-15.....	1,112	1,100	1,103	2
GS-14.....	6,134	6,061	6,073	12
GS-13.....	15,340	15,156	15,188	32
GS-12.....	10,601	10,474	10,495	21
GS-11.....	8,654	8,551	8,568	17
GS-10.....	924	912	914	2
GS-09.....	7,984	7,888	7,904	16
GS-08.....	9,798	9,680	9,700	20
GS-07.....	13,020	12,863	13,270	408
GS-06.....	5,638	5,571	5,582	11
GS-05.....	6,959	6,876	6,890	14
GS-04.....	5,802	5,733	5,744	11
GS-03.....	2,717	2,684	2,690	5
GS-02.....	123	121	122	0
GS-01.....	8	8	8	0
Subtotal.....	94,814	93,681	94,251	571
Other.....	2,506	2,477	2,482	5
Total full-time equivalent positions	97,597	96,434	97,010	576

1/ PL 108-136 abolishes the six levels of SES pay and replaces it with a new performance-based system effective January 2004.

Numbers may not add due to rounding.

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 TOTAL OPERATING BUDGET (TABLE 4.3)

IRS

(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Adjustments		Effect of Transfers, Prop. Supp. Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	5,165,802	85,503	(149,232)	(3,223)	5,016,572	82,280	198,221		(40,133)		5,174,661	82,280
11.3 Other than Full-Time Permanent Positions.....	532,142	15,769	(11,294)	(1,615)	520,847	14,154	(36,209)		(4,167)		480,472	14,154
11.5 Other Personnel Compensation.....	338,577		(9,248)		329,329		(91,112)		(2,635)		235,582	
11.8 Special Personal Services Payments.....	6,323		(229)		6,094		2,209		(49)		8,254	
11.9 Personnel Compensation (Total).....	6,042,844	101,272	(170,003)	(4,838)	5,872,842	96,434	73,110		(46,983)		5,898,969	96,434
12.1 Personnel Benefits.....	1,534,039		(41,896)		1,492,143		53,747		(11,937)		1,533,953	
13.0 Ben. Former Personnel.....	37,863		(863)		37,000		12,994		(296)		49,698	
21.0 Travel.....	227,103		(6,716)		220,388		(47,833)		(1,763)		170,792	
22.0 Transportation of Things.....	21,479		(349)		21,130		4,314		(169)		25,275	
23.1 Rental Paym'ts to GSA.....	706,565		(10,026)		696,538		(20,399)		(5,572)		670,567	
23.2 Rent Paym'ts to Others.....	309		(11)		298		37		(2)		332	
23.3 Commun., Util., & Misc.....	394,996		(9,643)		385,353		16,117		(3,083)		398,387	
24.0 Printing and Reprod.....	81,986		(1,240)		80,747		(8,043)		(646)		72,058	
25.1 Advisory & Assistance Services.....	66,963		(1,850)		65,112		(13,971)		(521)		50,620	
25.2 Other Services.....	893,317		(96,824)		853,387		(107,186)		(6,827)		739,374	
25.3 Purchase of Goods/Serv. from Govt. Accts.....	19,433		(559)		18,875		29,576		(151)		48,300	
25.4 Operation & Maintenance of Facilities.....	101,874		(1,468)		100,406		37,908		(803)		137,511	
25.5 Research & Development Contracts.....	4,712		(171)		4,541		2,415		(36)		6,920	
25.6 Medical Care.....	2,234		(36)		2,197		8,925		(18)		11,105	
25.7 Operation & Maintenance of Equipment.....	106,814		(3,190)		97,924		(7,030)		(783)		90,111	
25.8 Subsistence & Support of Persons.....	8,867		(266)		8,601		(4,283)		(69)		4,249	
26.0 Supplies and Materials.....	64,368		(1,769)		62,598		(7,930)		(501)		54,168	
31.0 Equipment.....	343,157		(8,537)		283,426		(23,456)		(2,267)		257,703	
32.0 Land and Structures.....	-		-		-		-		-		-	
33.0 Investments & Loans.....	-		-		-		-		-		-	
41.0 Grants, Subsidies.....	10,950		(155)		10,795		1,247		(86)		11,955	
42.0 Insur. Claims & Indemn.....	1,121		(34)		1,087		(71)		(9)		1,007	
44.0 Refunds.....	-		-		-		-		-		-	
91.0 Unvouchered.....	3,368		(122)		3,246		(187)		(26)		3,033	
TOTAL BUDGET AUTHORITY	10,674,362	101,272	(355,725)	(4,838)	10,318,636	96,434	0	-	(82,549)	-	10,236,087	96,434
APPROPRIATIONS												
1) Tax Administration Operations.....	10,354,521	101,255	(275,726)	(4,838)	10,078,795	96,417	-		(80,630)		9,998,165	96,417
2) Business Systems Modernization (BSM).....	285,000	0	(80,000)	-	205,000	-	-		(1,640)		203,360	-
3) Health Insurance Tax Credit Administration (HITCA)	34,841	17	-	-	34,841	17	-		(279)		34,562	17
TOTAL BUDGET AUTHORITY	10,674,362	101,272	(355,726)	(4,838)	10,318,636	96,434	-	-	(82,549)	-	10,236,087	96,434

Numbers may not add due to rounding.

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 OPERATING BUDGET (TABLE 4.3)

Tax Administration and Operations

(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Adjustments		Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	5,164,061	85,486	(149,232)	(3,223)	5,014,829	82,263	197,918		(40,119)		5,172,629	82,263
11.3 Other than Full-Time Permanent Positions..	532,141	15,769	(11,294)	(1,615)	520,847	14,154	(36,209)		(4,167)		480,472	14,154
11.5 Other Personnel Compensation.....	338,098		(9,248)		328,850		(90,659)		(2,631)		235,560	
11.8 Special Personal Services Payments.....	6,323		(229)		6,094		2,210		(49)		8,254	
Personnel Compensation (Total).....	6,040,623	101,255	(170,003)	(4,838)	5,870,620	96,417	73,260		(46,965)		5,896,915	96,417
12.1 Personnel Benefits.....	1,533,698		(41,896)		1,491,802		53,738		(11,934)		1,533,606	
13.0 Ben. Former Personnel.....	37,863		(863)		37,000		12,994		(296)		49,698	
21.0 Travel.....	226,964		(6,716)		220,248		(47,836)		(1,762)		170,651	
22.0 Transportation of Things.....	21,479		(349)		21,130		4,314		(169)		25,275	
23.1 Rental Paym'ts to GSA.....	706,564		(10,026)		696,538		(20,513)		(5,572)		670,453	
23.2 Rent Paym'ts to Others.....	309		(11)		298		37		(2)		332	
23.3 Commun., Util., & Misc.....	394,996		(9,643)		385,353		16,112		(3,083)		398,382	
24.0 Printing and Reprod.....	81,987		(1,240)		80,747		(8,043)		(646)		72,058	
25.1 Advisory & Assistance Services.....	66,962		(1,850)		65,112		(13,974)		(521)		50,618	
25.2 Other Services.....	633,080		(16,824)		616,256		(57,679)		(4,930)		553,647	
25.3 Purchase of Goods/Serv. from Govt. Accts..	19,434		(559)		18,875		29,573		(151)		48,298	
25.4 Operation & Maintenance of Facilities.....	101,874		(1,468)		100,406		37,900		(803)		137,502	
25.5 Research & Development Contracts.....	4,712		(171)		4,541		2,415		(36)		6,920	
25.6 Medical Care.....	2,233		(36)		2,197		8,925		(18)		11,105	
25.7 Operation & Maintenance of Equipment....	101,114		(3,190)		97,924		(12,730)		(783)		84,411	
25.8 Subsistence & Support of Persons.....	8,867		(266)		8,601		(4,283)		(69)		4,249	
26.0 Supplies and Materials.....	64,360		(1,769)		62,591		(7,930)		(501)		54,160	
31.0 Equipment.....	291,963		(8,537)		283,426		(67,268)		(2,267)		213,891	
32.0 Land and Structures.....	-		-		-		-		-		-	
33.0 Investments & Loans.....	-		-		-		-		-		-	
41.0 Grants, Subsidies.....	10,950		(155)		10,795		1,247		(86)		11,955	
42.0 Insur. Claims & Indemn.....	1,121		(34)		1,087		(71)		(9)		1,007	
44.0 Refunds.....	-		-		-		-		-		-	
91.0 Unvouchered.....	3,368		(122)		3,246		(186)		(26)		3,033	
TOTAL BUDGET AUTHORITY	10,354,521	101,255	(275,725)	(4,838)	10,078,795	96,417	-	-	(80,630)	-	9,998,165	96,417
BUDGET ACTIVITIES												
1) Assistance.....	1,868,885	21,668	(49,766)	(1,035)	1,819,120	20,632	24,822		(14,752)		1,829,190	20,798
2) Outreach.....	539,980	2,727	(14,379)	(130)	525,601	2,597	(21,237)		(4,035)		500,329	2,473
3) Processing	1,344,700	16,844	(35,807)	(805)	1,308,893	16,040	(22,140)		(10,294)		1,276,459	15,695
4) Research	169,919	1,230	(4,525)	(59)	165,394	1,171	(10,277)		(1,241)		153,876	1,119
5) Examination.....	3,511,216	32,178	(93,498)	(1,537)	3,417,717	30,640	87,951		(28,045)		3,477,623	31,498
6) Collection.....	1,872,678	19,195	(49,867)	(917)	1,822,811	18,278	17,627		(14,724)		1,825,715	18,023
7) Investigations	756,651	5,222	(20,148)	(250)	736,502	4,972	(49,022)		(5,500)		681,980	4,899
8) Regulatory Compliance.....	290,493	2,192	(7,735)	(105)	282,757	2,087	(27,724)		(2,040)		252,993	1,912
TOTAL BUDGET AUTHORITY	10,354,521	101,255	(275,725)	(4,838)	10,078,795	96,417	-	-	(80,630)	-	9,998,165	96,417

Numbers may not add due to rounding.

This appropriation becomes TAO in FY 2006

2/7/05

IRS-137

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 OPERATING BUDGET (TABLE 4.3)

Processing, Assistance and Management

(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Adjustments		Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	1,598,849	29,127	(22,673)	(618)	1,576,176	28,509	86,227		(12,610)		1,649,793	28,509
11.3 Other than Full-Time Permanent Positions.....	361,574	12,654	(5,127)	(1,262)	356,447	11,392	(15,163)		(2,852)		338,432	11,392
11.5 Other Personnel Compensation.....	127,657		(1,810)		125,847		(36,554)		(1,007)		88,286	
11.8 Special Personal Services Payments.....	0		0		0		1		0		1	
Personnel Compensation (Total).....	2,088,080	41,781	(29,611)	(1,880)	2,058,469	39,901	34,518		(16,468)		2,076,519	39,901
12.1 Personnel Benefits.....	592,405		(8,401)		584,004		19,518		(4,672)		598,850	
13.0 Ben. Former Personnel.....	20,690		(293)		20,397		(3,126)		(163)		17,107	
21.0 Travel.....	64,739		(918)		63,821		(10,478)		(511)		52,832	
22.0 Transportation of Things.....	19,418		(275)		19,143		2,870		(153)		21,859	
23.1 Rental Paym'ts to GSA.....	706,255		(10,015)		696,240		(20,217)		(5,570)		670,453	
23.2 Rent Paym'ts to Others.....	0		0		0		45		0		45	
23.3 Commun., Util., & Misc.....	171,126		(2,427)		168,699		(4,836)		(1,350)		162,514	
24.0 Printing and Reprod.....	78,495		(1,113)		77,382		(7,838)		(619)		68,925	
25.1 Advisory & Assistance Services.....	25,486		(361)		25,125		(1,339)		(201)		23,585	
25.2 Other Services.....	200,314		(2,841)		197,473		(37,332)		(1,580)		158,562	
25.3 Purchase of Goods/Serv. from Govt. Accts...	5,737		(81)		5,656		18,912		(45)		24,522	
25.4 Operation & Maintenance of Facilities.....	100,632		(1,427)		99,205		37,462		(794)		135,873	
25.5 Research & Development Contracts.....	0		0		0		0		0		0	
25.6 Medical Care.....	1,995		(28)		1,967		9,009		(16)		10,960	
25.7 Operation & Maintenance of Equipment.....	0		0		0		18		0		18	
25.8 Subsistence & Support of Persons.....	2,455		(35)		2,420		(424)		(19)		1,977	
26.0 Supplies and Materials.....	20,371		(289)		20,082		(4,297)		(161)		15,624	
31.0 Equipment.....	38,971		(553)		38,418		(33,835)		(307)		4,276	
32.0 Land and Structures.....	0		0		0		0		0		0	
33.0 Investments & Loans.....	0		0		0		0		0		0	
41.0 Grants, Subsidies.....	10,950		(155)		10,795		1,242		(86)		11,950	
42.0 Insur. Claims & Indemn.....	284		(4)		280		129		(2)		407	
44.0 Refunds.....	0		0		0		0		0		0	
91.0 Unvouchered.....	0		0		0		0		0		0	
TOTAL BUDGET AUTHORITY	4,148,403	41,781	(58,828)	(1,880)	4,089,574	39,901	(0)		(32,717)		4,056,857	39,901
BUDGET ACTIVITIES												
1) Pre-Filing Taxpayer Assistance and Education....	632,425	3,778	(8,968)	(578)	623,457	3,200	(79,094)		(4,988)		539,374	3,200
2) Filing and Account Services.....	1,747,457	30,314	(24,780)	(1,471)	1,722,677	28,843	1,474		(13,782)		1,710,369	28,843
3) Shared Services.....	1,290,204	4,486	(18,296)	(895)	1,271,908	3,591	(50,859)		(10,175)		1,210,873	3,591
4) General Management and Administration	478,317	3,203	(6,783)	(1,064)	471,534	4,267	128,479		(3,772)		596,241	4,267
TOTAL BUDGET AUTHORITY	4,148,403	41,781	(58,828)	(1,880)	4,089,574	39,901	0	-	(32,717)		4,056,857	39,901

Numbers may not add due to rounding.

This appropriation becomes TAO in FY 2006

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 OPERATING BUDGET (TABLE 4.3)

Tax Law Enforcement
(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Adjustments		Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	3,009,584	47,855	(109,205)	(2,053)	2,900,379	45,802	0		(23,203)		2,877,176	45,802
11.3 Other than Full-Time Permanent Positions.....	166,034	4,234	(6,025)	(904)	160,009	3,330	0		(1,280)		158,729	3,330
11.5 Other Personnel Compensation.....	171,146		(6,210)		164,936		0		(1,319)		163,616	
11.8 Special Personal Services Payments.....	6,323		(229)	-	6,094		0		(49)		6,045	
Personnel Compensation (Total).....	3,353,087	52,089	(121,669)	(2,957)	3,231,418	49,132	0		(25,851)		3,205,566	49,132
12.1 Personnel Benefits.....	810,531		(29,411)		781,120		0		(6,249)		774,871	
13.0 Ben. Former Personnel.....	6,498		(236)		6,262		0		(50)		6,212	
21.0 Travel.....	144,613		(5,247)		139,366		0		(1,115)		138,251	
22.0 Transportation of Things.....	1,869		(68)		1,801		0		(14)		1,787	
23.1 Rental Paym'ts to GSA.....	153		(6)		147		0		(1)		146	
23.2 Rent Paym'ts to Others.....	308		(11)		297		0		(2)		294	
23.3 Commun., Util., & Misc.....	44,469		(1,614)		42,855		0		(343)		42,513	
24.0 Printing and Reprod.....	3,489		(127)		3,362		0		(27)		3,335	
25.1 Advisory & Assistance Services.....	38,161		(1,385)		36,776		0		(294)		36,482	
25.2 Other Services.....	92,367		(3,352)		89,015		0		(712)		88,303	
25.3 Purchase of Goods/Serv. from Govt. Accts...	9,817		(356)		9,461		0		(76)		9,385	
25.4 Operation & Maintenance of Facilities.....	471		(17)		454		0		(4)		450	
25.5 Research & Development Contracts.....	4,712		(171)		4,541		0		(36)		4,505	
25.6 Medical Care.....	4		(0)		4		0		(0)		4	
25.7 Operation & Maintenance of Equipment.....	6,247		(227)		6,020		0		(48)		5,972	
25.8 Subsistence & Support of Persons.....	6,107		(222)		5,885		0		(47)		5,838	
26.0 Supplies and Materials.....	20,941		(760)		20,181		0		(161)		20,020	
31.0 Equipment.....	16,301		(591)		15,710		0		(126)		15,584	
32.0 Land and Structures.....	0		0		0		0		0		0	
33.0 Investments & Loans.....	0		0		0		0		0		0	
41.0 Grants, Subsidies.....	0		0		0		0		0		0	
42.0 Insur. Claims & Indemn.....	837		(30)		807		0		(6)		800	
44.0 Refunds.....	0		0		0		0		0		0	
91.0 Unvouchered.....	3,368		(122)		3,246		0		(26)		3,220	
TOTAL BUDGET AUTHORITY	4,564,350	52,089	(165,621)	(2,957)	4,398,729	49,132	0		(35,190)		4,363,539	49,132
BUDGET ACTIVITIES												
1) Compliance Services.....	4,295,299	48,480	(155,858)	(2,794)	4,139,441	45,686	(1,856)		(33,116)		4,104,469	45,686
2) Research and Statistics of Income.....	92,821	877	(3,368)	(11)	89,453	866	5,738		(716)		94,475	866
3) Earned Income Tax Credit.....	176,230	2,732	(6,395)	(152)	169,835	2,580	(3,882)		(1,359)		164,595	2,580
TOTAL BUDGET AUTHORITY	4,564,350	52,089	(165,621)	(2,957)	4,398,729	49,132	(0)	-	(35,190)		4,363,539	49,132

Numbers may not add due to rounding.

This appropriation becomes TAO in FY 2006

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 OPERATING BUDGET (TABLE 4.3)

Information Systems

(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Adjustments		Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	555,628	7,281	(17,353)	-	538,275	7,281	(1)		(4,306)		533,968	7,281
11.3 Other than Full-Time Permanent Positions.....	4,533	104	(142)	-	4,391	104	(548)		(35)		3,809	104
11.5 Other Personnel Compensation.....	39,295		(1,227)		38,068		0		(304)		37,764	
11.8 Special Personal Services Payments.....	0		0		0		0		0		0	
Personnel Compensation (Total).....	599,456	7,385	(18,722)	-	580,734	7,385	(549)		(4,645)		575,540	7,385
12.1 Personnel Benefits.....	130,762		(4,084)		126,678		(117)		(896)		125,665	
13.0 Ben. Former Personnel.....	10,675		(333)		10,341		7		(89)		10,259	
21.0 Travel.....	17,612		(550)		17,061		(17)		(119)		16,925	
22.0 Transportation of Things.....	192		(6)		186		0		(1)		184	
23.1 Rental Paym'ts to GSA.....	156		(5)		151		0		(1)		150	
23.2 Rent Paym'ts to Others.....	1		(0)		1		0		(0)		1	
23.3 Commun., Util., & Misc.....	179,401		(5,603)		173,798		(0)		(1,391)		172,408	
24.0 Printing and Reprod.....	2		(0)		2		0		(0)		2	
25.1 Advisory & Assistance Services.....	3,315		(104)		3,212		0		(25)		3,186	
25.2 Other Services.....	340,399		(10,631)		329,767		679		(2,768)		327,678	
25.3 Purchase of Goods/Serv. from Govt. Accts...	3,880		(121)		3,759		0		(30)		3,729	
25.4 Operation & Maintenance of Facilities.....	771		(24)		747		0		(6)		741	
25.5 Research & Development Contracts.....	0		0		0		0		0		0	
25.6 Medical Care.....	234		(7)		227		(1)		(2)		225	
25.7 Operation & Maintenance of Equipment.....	94,867		(2,963)		91,904		(1)		(735)		91,169	
25.8 Subsistence & Support of Persons.....	305		(10)		295		0		(2)		293	
26.0 Supplies and Materials.....	23,048		(720)		22,328		(1)		(178)		22,149	
31.0 Equipment.....	236,691		(7,392)		229,299		0		(1,835)		227,464	
32.0 Land and Structures.....	0		0		0		0		0		0	
33.0 Investments & Loans.....	0		0		0		0		0		0	
41.0 Grants, Subsidies.....	0		0		0		0		0		0	
42.0 Insur. Claims & Indemn.....	0		0		0		0		0		0	
44.0 Refunds.....	0		0		0		0		0		0	
91.0 Unvouchered.....	0		0		0		0		0		0	
TOTAL BUDGET AUTHORITY	1,641,768	7,385	(51,276)	0	1,590,492	7,385	0		(12,724)		1,577,768	7,385
BUDGET ACTIVITIES												
1) Information Systems Improvements Programs.....	49,302		(1,540)		47,762		1,622		(382)		49,002	
2) Information Services.....	1,592,466	7,385	(49,736)		1,542,730	7,385	(1,622)		(12,342)		1,528,766	7,385
TOTAL BUDGET AUTHORITY	1,641,768	7,385	(51,276)	-	1,590,492	7,385	(0)	-	(12,724)		1,577,768	7,385

Numbers may not add due to rounding.
This appropriation becomes TAO in FY 2006

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 OPERATING BUDGET (TABLE 4.3)

Business Systems Modernization

(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Reprogrammings		Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	-				-		-				-	
11.3 Other than Full-Time Permanent Positions.....	-				-		-				-	
11.5 Other Personnel Compensation.....	-				-		-				-	
11.8 Special Personal Services Payments.....	-				-		-				-	
11.9 Personnel Compensation (Total).....	-		-		-		-		-		-	
12.1 Personnel Benefits.....	-				-		-				-	
13.0 Ben. Former Personnel.....	-				-		-				-	
21.0 Travel.....	-				-		-				-	
22.0 Transportation of Things.....	-				-		-				-	
23.1 Rental Paym'ts to GSA.....	-				-		-				-	
23.2 Rent Paym'ts to Others.....	-				-		-				-	
23.3 Commun., Util., & Misc.....	-				-		-				-	
24.0 Printing and Reprod.....	-				-		-				-	
25.1 Advisory & Assistance Services.....	-				-		-				-	
25.2 Other Services.....	285,000		(80,000)		205,000		-		(1,640)		203,360	
25.3 Purchase of Goods/Serv. from Govt. Accts...	-				-		-				-	
25.4 Operation & Maintenance of Facilities.....	-				-		-				-	
25.5 Research & Development Contracts.....	-				-		-				-	
25.6 Medical Care.....	-				-		-				-	
25.7 Operation & Maintenance of Equipment.....	-				-		-				-	
25.8 Subsistence & Support of Persons.....	-				-		-				-	
26.0 Supplies and Materials.....	-				-		-				-	
31.0 Equipment.....	-				-		-				-	
32.0 Land and Structures.....	-				-		-				-	
33.0 Investments & Loans.....	-				-		-				-	
41.0 Grants, Subsidies.....	-				-		-				-	
42.0 Insur. Claims & Indemn.....	-				-		-				-	
44.0 Refunds.....	-				-		-				-	
91.0 Unvouchered.....	-				-		-				-	
TOTAL BUDGET AUTHORITY	285,000	-	(80,000)	-	205,000	-	-	-	(1,640)	-	203,360	-

Numbers may not add due to rounding.

Internal Revenue Service

EXPLANATION OF PROPOSED FY 2005 OPERATING BUDGET (TABLE 4.3)**Health Insurance Tax Coverage Administration**

(Dollars in Thousands)

OBJECT CLASS	FY 2005 Pres. Budget		+ or - Congressional Action		FY 2005 Enacted Level		Other Proposed Adjustments		Rescission		FY 2005 Proposed Operating Level	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
11.1 Full-Time Permanent Positions.....	1,743	17	-		1,743	17	-		(14)		1,729	17
11.3 Other than Full-Time Permanent Positions.....	-	-			-		-				-	-
11.5 Other Personnel Compensation.....	479				479		-		(4)		475	
11.8 Special Personal Services Payments.....	-				-		-				-	
11.9 Personnel Compensation (Total).....	2,222	17			2,222	17	-		(18)		2,204	17
12.1 Personnel Benefits.....	341				341		-		(3)		338	
13.0 Ben. Former Personnel.....	-				-		-				-	
21.0 Travel.....	140				140		-		(1)		139	
22.0 Transportation of Things.....	-				-		-				-	
23.1 Rental Paym'ts to GSA.....	-				-		-				-	
23.2 Rent Paym'ts to Others.....	-				-		-				-	
23.3 Commun., Util., & Misc.....	-				-		-				-	
24.0 Printing and Reprod.....	-				-		-				-	
25.1 Advisory & Assistance Services.....	-				-		-				-	
25.2 Other Services.....	32,131				32,131		-		(257)		31,874	
25.3 Purchase of Goods/Serv. from Govt. Accts..	-				-		-				-	
25.4 Operation & Maintenance of Facilities.....	-				-		-				-	
25.5 Research & Development Contracts.....	-				-		-				-	
25.6 Medical Care.....	-				-		-				-	
25.7 Operation & Maintenance of Equipment.....	-				-		-				-	
25.8 Subsistence & Support of Persons.....	-				-		-				-	
26.0 Supplies and Materials.....	7				7		-				7	
31.0 Equipment.....	-				-		-				-	
32.0 Land and Structures.....	-				-		-				-	
33.0 Investments & Loans.....	-				-		-				-	
41.0 Grants, Subsidies.....	-				-		-				-	
42.0 Insur. Claims & Indemn.....	-				-		-				-	
44.0 Refunds.....	-				-		-				-	
91.0 Unvouchered.....	-				-		-				-	
TOTAL BUDGET AUTHORITY	34,841	17	-	-	34,841	17	-	-	(279)	-	34,562	17

Numbers may not add due to rounding.

Internal Revenue Service

STANDARD OBJECT CLASSIFICATION SCHEDULE - Total Obligations (TABLE 4.4)

IRS

(Dollars in Thousands)

Object Class	FY 2004 Actual	FY 2005 Proposed Operating Level	FY 2006 Budget Estimate	Increases/ Decreases for FY 2006
Object Classification				
Personnel compensation:				
Permanent positions.....	4,962,522	5,174,660	5,388,784	214,124
Positions other than permanent.....	499,905	480,473	483,116	2,643
Other personnel compensation.....	230,672	235,582	230,417	(5,165)
Special personal services payments.....	8,044	8,254	13,753	5,499
Total personnel compensation.....	5,701,144	5,898,969	6,116,070	217,101
Civilian personnel benefits.....	1,472,534	1,533,953	1,610,041	76,088
Benefits to former personnel.....	68,858	49,698	36,927	(12,771)
Travel and transportation of persons.....	173,074	170,792	210,083	39,290
Transportation of things.....	27,233	25,275	26,209	933
Rents, communications and utilities:				
Rental payments to GSA.....	667,812	670,566	717,974	47,407
Rental payments to others.....	768	332	381	49
Other rents, communications and utilities.....	388,350	398,387	399,297	910
Printing and reproduction.....	76,287	72,058	72,678	620
Other services:				
Advisory & assistance services.....	92,652	50,620	51,938	1,318
Other services.....	852,759	739,373	756,326	16,953
Purchase of goods/services from Govt. accts.....	175,392	48,300	54,255	5,955
Operation & maintenance of facilities.....	116,871	137,511	148,880	11,369
Research & development contracts.....	9,325	6,920	6,984	64
Medical care.....	11,038	11,105	11,207	103
Operation & maintenance of equipment.....	92,218	90,111	92,646	2,536
Subsistence & support of persons.....	2,764	4,249	5,682	1,433
Supplies and materials.....	60,736	54,168	55,770	1,602
Equipment.....	357,637	257,703	289,016	31,313
Lands and structures.....	56	0	0	0
Grants, Subsidies & Contributions.....	11,765	11,955	12,065	110
Insurance Claims and Indemnities.....	2,152	1,007	1,017	9
Interest and Dividends.....	0	0	0	0
Confidential expenditures.....	3,643	3,033	3,814	780
Total obligations.....	10,365,066	10,236,087	10,679,261	443,174
Unobligated balance available, SOY (-).....	(209,725)			
Unobligated balance available, EOY (+).....	257,200			
Unobligated balance expiring (+).....	59,429			
Recoveries of prior year obligations (-).....	(33,056)			
User Fees (-).....	(62,524)			
Reimbursables (-).....	(165,635)			
Unobligated Reimbursable Collections (-).....	(527)			
50% Carryover Unobligated Transfer In (+).....	(25,446)			
HIDTA Transfer Out (-).....	(266)			
Total enacted appropriations and budget estimate	10,184,517	10,236,087	10,679,261	443,174

Numbers may not add due to rounding
FY 2004 Actual aligns with Max Data

VERIFICATION AND VALIDATION OF DATA (EXHIBIT 4f)

This link is to the Data Dictionary that outlines all of the measures in the budget.

[www.irs.gov/pub/irs-utl/data dictionary.pdf](http://www.irs.gov/pub/irs-utl/data_dictionary.pdf)

Internal Revenue Service

SUMMARY OF ANNUAL APPROPRIATED RESOURCES BY BUDGET AND PROGRAM ACTIVITIES (TABLE 4.5)

IRS

(Dollars in Thousands)

Program Activities		FY 2004		FY 2005		FY 2006	
		Dollars	FTE	Dollars	FTE	Dollars	FTE
Assistance	Electronic	\$1,541,908	18,798	\$1,536,215	17,745	\$1,557,314	17,721
	Field	\$273,741	2,742	\$274,462	2,796	\$229,637	2,181
	EITC Electronic	\$10,994	185	\$12,506	174	\$12,837	174
	EITC Field	\$1,730	14	\$6,006	84	\$6,177	84
	Assistance Total	\$1,828,373	21,739	\$1,829,190	20,798	\$1,805,965	20,160
Outreach	Publication & Media	\$297,864	967	\$290,934	821	\$275,583	520
	Taxpayer Education & Communication	\$238,781	1,844	\$202,528	1,592	\$183,609	1,326
	EITC Publication & Media	\$2,054	0	\$2,081	5	\$2,108	5
	EITC Taxpayer Education & Communication	\$5,447	60	\$4,786	55	\$4,916	55
	Outreach Total	\$544,146	2,871	\$500,329	2,473	\$466,217	1,905
Processing	Submission Processing	\$1,334,901	17,372	\$1,269,141	15,604	\$1,287,778	15,425
	EITC Submission Processing	\$2,227	46	\$7,318	91	\$7,495	91
	Processing total	\$1,337,128	17,418	\$1,276,459	15,695	\$1,295,273	15,516
Research	Research	\$85,871	550	\$91,236	529	\$93,497	530
	Statistics of Income	\$57,824	572	\$60,820	575	\$62,505	575
	EITC Research	\$2,661	22	\$1,745	14	\$1,794	14
	EITC Statistics of Income	\$0	0	\$75	0	\$76	0
	Research Total	\$146,355	1,144	\$153,876	1,119	\$157,872	1,119
Examination	Legal Guidance	\$64,782	550	\$66,437	569	\$68,315	569
	Documenting Matching	\$180,825	2,236	\$188,063	2,297	\$204,572	2,411
	Electronic/Correspondence	\$272,560	3,465	\$381,200	4,027	\$419,402	4,425
	Field	\$2,482,469	21,443	\$2,672,746	22,273	\$2,845,605	22,546
	Litigation	\$74,373	632	\$76,284	653	\$78,440	653
	EITC Legal Guidance	\$445	4	\$460	4	\$473	4
	EITC Documenting Matching	\$11,855	168	\$6,075	115	\$6,248	115
	EITC Electronic/Correspondence	\$126,388	1,822	\$81,587	1,531	\$83,965	1,531
	EITC Field	\$201	3	\$4,244	24	\$4,326	24
	EITC Litigation	\$512	5	\$528	5	\$544	5
	Examination total	\$3,214,410	30,329	\$3,477,623	31,498	\$3,711,889	32,284
Collection	Electronic/Correspondence	\$735,646	8,054	\$810,664	8,797	\$899,074	9,466
	Field	\$1,043,587	10,336	\$1,005,244	9,158	\$1,081,461	9,281
	EITC Electronic/Correspondence	\$0	0	\$7,734	58	\$7,917	58
	EITC Field	\$0	0	\$2,072	10	\$2,111	10
	Collection Total	\$1,779,233	18,390	\$1,825,715	18,023	\$1,990,562	18,815
Investigations	Criminal Activity	\$619,600	4,508	\$654,814	4,488	\$739,448	4,839
	EITC Criminal Activity	\$36,531	493	\$27,166	410	\$27,971	410
	Investigation Total	\$656,131	5,001	\$681,980	4,899	\$767,419	5,250
Regulatory Compliance	Ruling & Agreements	\$154,235	1,392	\$149,944	1,115	\$153,443	1,053
	Interpretation & Guidance	\$52,608	370	\$52,777	381	\$59,699	410
	Non-tax Regulatory Comp	\$16,185	140	\$16,047	152	\$16,510	152
	Currency Transaction Reporting	\$33,123	244	\$34,012	264	\$34,987	328
	Professional Responsibility						
	EITC Ruling & Agreements	\$97	1	\$137	0	\$139	0
	EITC Interpretation & Guidance			\$33	0	\$34	0
	EITC Non-tax Regulatory Comp						
	EITC Currency Transaction Reporting			\$41	0	\$42	0
	EITC Professional Responsibility						
	Regulatory Total	\$256,248	2,146	\$252,993	1,912	\$264,855	1,944
Total, Tax Administration and Operation Appropriation		\$9,762,024	99,038	\$9,998,165	96,417	\$10,460,051	96,993
Total, Business Systems Modernization		\$387,699	0	\$203,360	-	\$199,000	0
Total, Health Insurance Tax Credit Administration		\$34,794	17	\$34,562	17	\$20,210	17
Grand Total		\$10,184,517	99,055	\$10,236,087	96,434	\$10,679,261	97,010

Numbers may not add due to rounding

SUMMARY OF IT INVESTMENTS (TABLE 4.7)

(Dollars in Thousands)			
TAO Appropriation (IT previously funded under the IS appropriation)	Control Numbers		
	FY 2004	FY 2005	FY 2006
Infrastructure Projects:			
Computing Systems Software	\$269	\$271	\$276
Enterprise Network	\$303	\$286	\$298
IRS End User Equipment	\$367	\$326	\$323
Security	\$36	\$51	\$52
Web Services	\$41	\$41	\$42
Tier B Infrastructure	\$7	\$11	\$0
Subtotal Infrastructure Projects	\$1,024	\$986	\$991
Other IRS Information Systems (0919)	\$557	\$591	\$607
Subtotal IT Funding (previously under IS)	\$1,581	\$1,578	\$1,598
TAO Appropriation - (IT support previously funded under the PAM and TLE appropriations)			
Support to BSM Projects	\$17	\$17	\$24
EITC - Electronic Fraud Detection System	\$0	\$0	\$0
Subtotal IT Funding (previously under PAM and TLE)	\$18	\$18	\$24
BSM Appropriation	\$388	\$203	\$199
Subtotal BSM Appropriation	\$388	\$203	\$199
Total Exhibit 53	\$1,987	\$1,798	\$1,821

Internal Revenue Service

Summary of IT Capital Investments Included in Exhibit 300s (Table 4.7)				
(\$000)				
Type	Project Name	Cumulative thru FY 2004	FY 2005	FY 2006
	Sustain Current Operations:			
IT	Appeals Automation Environment	\$33,910	\$16,670	\$10,770
IT	Business Master File	\$26,116	\$13,059	\$14,157
IT	Enterprise Data Warehouse	\$85,231	\$8,154	\$8,473
IT	Counsel Automated Systems Environment	\$262,171	\$26,129	\$28,740
IT	Electronic Fraud Detection System	\$160,705	\$6,472	\$6,083
IT	Electronic Management System	\$130,900	\$9,118	\$10,265
IT	Financial Management Information Systems	\$74,223	\$4,223	\$4,285
IT	Individual Master File	\$24,256	\$14,143	\$15,051
IT	Information Returns Processing	\$12,166	\$7,598	\$7,680
IT	Integrated Collection System	\$320,763	\$7,275	\$9,401
IT	Integrated Data Retrieval System	\$44,356	\$18,299	\$20,715
IT	Integrated Customer Communications Environment	\$262,446	\$20,576	\$19,857
IT	Integrated Submission and Remittance Processing	\$238,625	\$14,269	\$13,878
IT	Interim Revenue Accounting Control System	\$13,095	\$1,784	\$1,832
IT	Service Center Recognition/Image Processing System	\$33,955	\$13,690	\$14,978
IT	Tax Return Data Base	\$11,720	\$5,113	\$5,773
IT	Telefile	\$12,715	\$6,441	\$6,650
IT	Travel Reimbursement and Accounting System	\$11,514	\$1,819	\$1,852
	Subtotal	\$1,758,867	\$194,832	\$200,440
	In-Process Capital Projects:			
	Subtotal			
	Proposed New Capital Projects:			
	Subtotal			
	Grand Total	\$1,758,867	\$194,832	\$200,440

Internal Revenue Service

Business Systems Modernization (BSM) (Table 4.7)
Funding by Project
(Dollars in Thousands)

BSM Project/Activity	FY 2004	FY 2005	FY 2006
e-Services	\$36,000	\$9,600	\$0
Filing & Payment Compliance (F&PC)			\$10,000
Collection Contract Support (CCS)	\$14,250		
Modernized e-File (MeF)	\$37,200	\$26,750	\$30,000
Customer Account Data Engine (CADE)	\$67,355	\$54,237	\$60,000
Custodial Accounting Project (CAP)	\$25,200		
Integrated Financial System (IFS)	\$32,000		
Core Infrastructure Activities	\$84,007	\$62,000	\$47,000
Architecture, Integration, & Management	\$85,800	\$45,000	\$37,000
Management Reserve	\$5,887	\$5,773	\$15,000
BSM Program Total	\$387,699	\$203,360	\$199,000

-Risk Adjustment is included in Project/Activity totals.

-FY06 Management Reserve funding may be shifted to projects as IRS gains capacity to expand.

-The amounts in this chart reflect total fiscal year funding from the BSM Appropriation, and amounts reported in the BSM Expenditure Plan. The amounts in this chart differ from those in IRS' OMB Exhibit 300s because the Architecture, Integration, Management and core infrastructure activities are allocated directly across the projects (e-Services, CADE, IFS, etc.)

APPENDIX

RESTRUCTURING THE IRS BUDGET

APPENDIX A

Restructuring the IRS Budget

In June 2004 the IRS released its updated five-year strategic plan, highlighting the tripartite goals of Taxpayer Service, Enforcement of the nation's tax laws, and Modernization of the Service's information technology and data management systems. In an effort to align the IRS' program resources with their strategic goals, the Service proposes to revise its budget structure in order to create a financial and performance plan that more clearly and consistently reflects the mission of the IRS; and program costs to achieve the Service's strategic goals and objectives. Presently, the IRS budget is divided among five appropriations, with funding for key elements of taxpayer service and enforcement subdivided according to process flows within two of those appropriations (PAM and TLE), and funding for modernization and related information system support allocated to two other appropriations (BSM and ISY). In addition, funding for critical support elements for each of these functions are allocated solely in one appropriation (PAM), making full cost accounting of programs and initiatives difficult under the present structure.

The proposed budget structure consolidates the IRS' three major appropriations into one appropriation, Tax Administration and Operations (TAO). Within the TAO appropriation, budgetary resources are broken down among eight core Taxpayer Service and Enforcement activities: Assistance, Outreach, Processing, Examination, Collection, Investigations, Regulatory Compliance, and Research. Resources for the IRS' Modernization program, as well as funding for Health Care Tax Administration, will remain separate in their existing appropriations.

One of the key advantages of this new budget structure is it will allow for a closer and more consistent relationship of budget requests to strategic goals and objectives. Unlike our existing structure, which has a process-oriented set of budget activities, our proposed structure is program and outcome-oriented. This new orientation permits the close alignment of strategic objectives such as "Facilitate Participation in the Tax System by All Sectors of the Public" and "Ensure that Attorneys, Accountants and Other Tax Practitioners Adhere to Professional Standards and Follow the Law" with resources in areas such as Outreach and Regulatory Compliance. As a result, this structural proposal will allow the Service to provide a more realistic picture of the return we intend to provide for the resources invested in the agency's operations.

An additional advantage of this budget structure is that it will permit the full integration of operational and support costs within the new program activities. Currently, the Service's support costs are distributed into a set of activities, and consolidated into one appropriation; that are distinct from the operational functions of the IRS. Unfortunately, this separation of resources prevents the IRS from obtaining a true full costing of IRS program resource needs. For instance, it is difficult to determine how much rent is dedicated

Internal Revenue Service

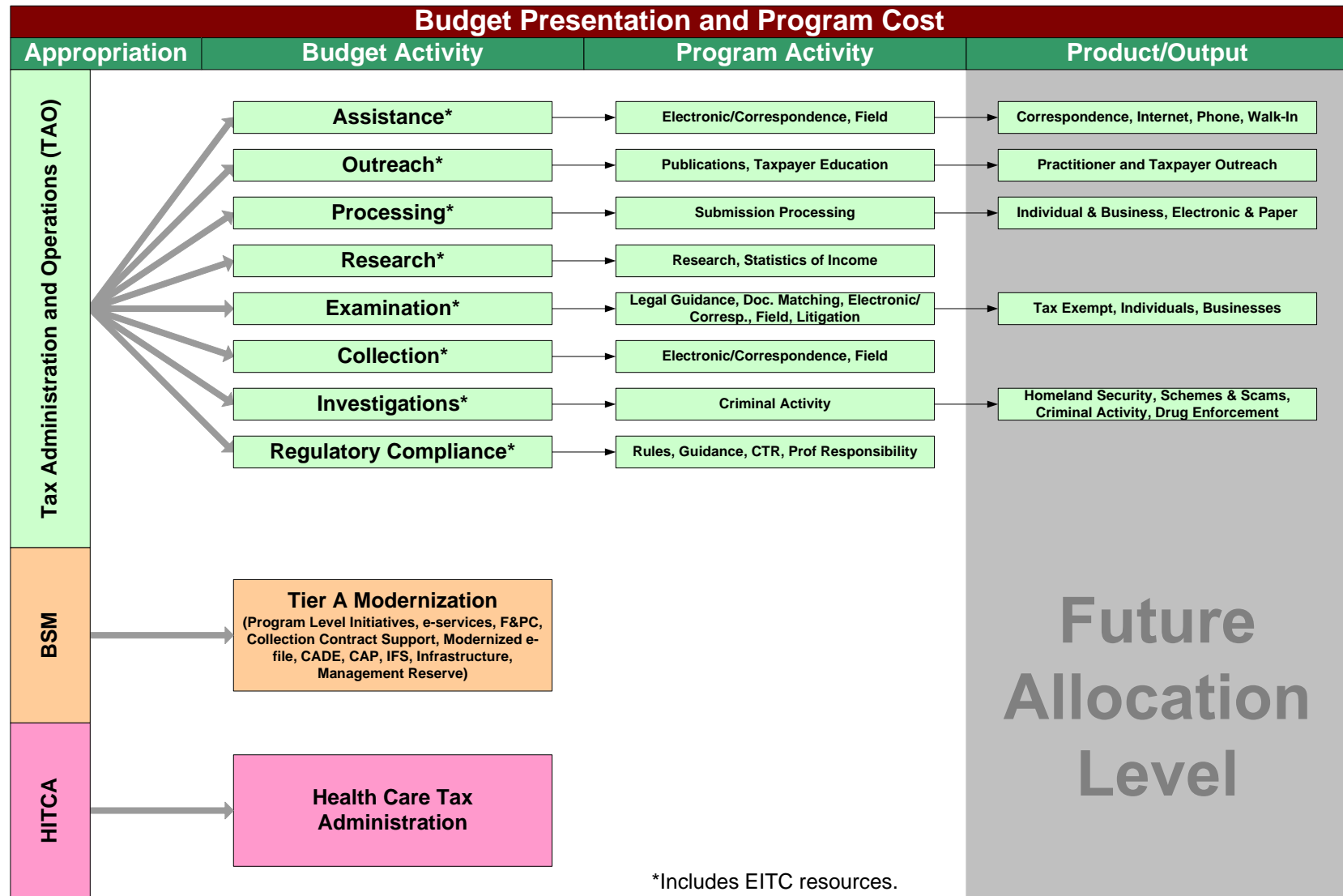
to Submissions Processing. Similar problems exist with labor-based and IT support costs; presently the IRS cannot readily determine the degree to which these support costs are dedicated to specific operational areas. The new structure will allow us to integrate these costs and provide a costed projection of IRS operations, as well as the incremental benefit resulting from program increases or initiatives requested in the budget. Demonstrating the amount of resources required for Enforcement – and the return that can be expected from that investment – will henceforth include anticipated support costs relating to information technology, space and housing, and a multitude of other areas. This will provide a realistic idea of the Service's cost of doing business.

Finally, the new structure will facilitate the true alignment of performance measures among the budget activities and programs, as the measures could be tied directly to programs and funds in one appropriation rather than overlapping a series of program activities dispersed across multiple appropriations. These changes would allow evaluators to more accurately assess the overall value of IRS programs, and make program evaluations such as OMB's Program Assessment Rating Tool (PART) more effective, thus providing greater accountability and a results-oriented management focus.

Under this proposed structure, the IRS will have a higher level of transparency than the current structure. The IRS Business Units' financial plans will remain in place, and the Service will be capable of isolating and reporting on specific operational or support costs, if necessary. As a result, we will be able to provide the Congress, Government Accountability Office, and other stakeholders better accounting of IRS program resources, but will retain full access to all IRS budget information.

Distribution of IRS Program Resources

FY 2006 Budget Restructure Proposal



Summary Descriptions of Budget and Program Activities

FY 2006 Budget Restructure Project

Tax Administration and Operations

The Tax Administration and Operations (TAO) appropriation provides resources for the Internal Revenue Service's core taxpayer service and enforcement programs. The TAO appropriation allocates the IRS' resources among eight core programs (or budget activities): Assistance, Outreach, Processing, Research, Examination, Collection, Investigations, Regulatory Compliance, and Research. These eight activities strategically align with and support the IRS' two operational goals, *Improve Taxpayer Service* and *Enhance Enforcement of the Tax Law*, and are balanced with the third goal, *Modernize the IRS through its People, Processes and Technology*. The core budget activities aligned with the Taxpayer Service strategic goal are Assistance, Outreach, and Processing. The core budget activities aligned with the Enforcement strategic goal include Examination, Collection, Investigations, Regulatory Compliance, and Research.

The following is a brief description of each budget and subprogram activities:

Taxpayer Service Strategic Goal

The Taxpayer Service budget activities provide resources necessary to promote the programs the Service uses to aid our customers and key stakeholders in the fulfillment of their tax obligations. Resources from these activities are used to develop published guidance, provide various media for taxpayer interaction (including call centers and walk-in sites), and in general respond to customer needs and facilitate the tax return preparation process. In addition, this activity also supports the processing of filed returns – both paper and electronic – and the maintenance of taxpayer accounts, disposition of records, and issuance of refunds, where applicable. The following list identifies the budget and program activities aligned with this goal.

Budget Activity: Assistance - Provides staff, training and direct resources for interaction with taxpayers through various media that include face-to-face contact, correspondence, electronic communication, and telephone contact. Taxpayers are able to obtain answers to technical tax questions, resolve account and notice inquiries, secure forms and publications and receive assistance in the preparation of tax returns. Includes the taxpayer advocate office that ensures resolution of all taxpayer issues at the point of first contact

Program Activity:

- **Electronic/Correspondence Assistance** - This program provides assistance and educational services via telephone, e-mail and written correspondence. Included in this program are the resources necessary to staff and operate toll-free call centers and other telephone-based service operations for individuals, businesses, and tax practitioners. In addition, resources are devoted to refund inquiries and other internet and portal-based services, such as the maintenance and development of the IRS.GOV website.
- **Field Assistance** - This program provides assistance, education, and compliance services for taxpayers including need-based return preparation and inquiries. This program also includes the costs of staffing and operating “walk-in” sites (i.e., Tax Assistance Centers) and other direct taxpayer service facilities.

Budget Activity: Outreach - Provides staffing, training and direct support resources for hosting proactive educational programs for individual taxpayers, businesses, non-profit organizations, tax practitioners, and other stakeholders. The primary objective of this activity is to ensure that taxpayers understand their obligations and options with respect to tax filing, reporting and paying, and that they are provided with the information and materials necessary to meet those requirements in a manner that maximizes efficiency and minimizes cost and burden.

Program Activity:

- **Publications and Media** - This program seeks to continuously improve the quality and timeliness of taxpayer contacts through the redesign and simplification of notices, forms and publications and the distribution of tax forms and related products to taxpayers, employees and other affected parties. Related activities include developing understandable notices, producing forms and publications for printed and electronic tax materials, and supplying media production services to taxpayers.
- **Taxpayer Education & Communication** - This program includes developing educational material for use in pre-filing, filing, and post-filing customer interactions and developing marketing products for use with local and national media to ensure taxpayers are aware of tax law changes and IRS services. Outreach efforts are also aimed at establishing and maintaining cooperative partnerships with business and professional associations, industry-specific trade organizations, educational institutions and Federal, State and local governments to better identify and address taxpayer needs and market new educational products and delivery systems. This program promotes e-file, e-services, free Internet filing options, and expanded multilingual initiatives to develop and enhance products and services for Limited English Proficient taxpayers.

Internal Revenue Service

Budget Activity: Processing - Provides staffing, training, and direct support resources for the receipt, tracking, processing, and storing of all electronic and paper returns, as well as issuing refunds and tax notices to affected taxpayers. In addition, this activity provides all resources necessary to process paper and electronically submitted tax returns and supplemental documents account for tax revenues; to issue refunds and tax notices; and to process information documents which enables the Service to match this information with that provided by taxpayers on their returns.

Program Activity:

- **Submissions Processing** - This program includes all resources necessary to support tax filing, reporting and payment activities. In addition to capture data for electronically filed returns, schedules and information documents, Submission Processing campus operations transcribe data from paper documents, issue tax notices, process refunds for overpayments and account for all tax revenue. This program encompasses the processing of both paper and electronic tax returns for individuals, businesses, corporations, tax exempt organizations, and other entities.

Enforcement Strategic Goal

One of the core missions of the Internal Revenue Service is to ensure that our nation's tax laws are enforced in a manner fair to all. IRS' enforcement activities include the examination of taxpayer returns for errors or any intentional misrepresentation of tax liability, collection of delinquent taxpayer accounts, investigation of criminal wrongdoing, and litigation arising from any official IRS actions. In addition, a portion of the resources in this activity is dedicated to research and the analysis of trends, statistics, and IRS activities. The following list identifies the budget and program activities aligned with this strategic goal.

Budget Activity: Research – Provides staffing, training and direct support resources to conduct analyses of Servicewide operations and outputs, perform economic and demographic research related to taxpayer behavior, produce statistical evaluations of IRS program activities, and publish specialized studies and reports dealing with all areas of tax administration.

Program Activity:

- **Research** - Anticipates, identifies and analyzes issues related to tax administration compliance and enforcement, service delivery and taxpayer behavior. Performs strategic and tactical research (e.g., environmental scans, risk analyses) aimed at establishing goals, outputs and performance measures/indicators for improving the efficiency of operations, responsiveness to stakeholder needs and the application of advanced data modeling and forecasting techniques to tax administration problems.

Internal Revenue Service

- **Statistics of Income** - Monitors, analyzes, and reports tax information and data captured or transcribed in submission processing operations. Prepares special analyses and reports of filing characteristics of individual and business taxpayers in all major categories, industry groupings and income classes. Documents and forecasts projected receipts of all major return types, tax forms and related schedules and information documents. Conducts special sampling and complex data analysis of tax information for both internal and external use. Major external partners and customers include the Department of the Treasury's Office of Tax Analysis, the Joint Committee on Taxation, the Government Accountability Office, the Congressional Budget Office, the Department of Labor (Bureau of Labor Statistics) and Department of Commerce (Bureau of the Census and Bureau of Economic Affairs).

Budget Activity: Examination - Provides staffing, training and direct support resources to verify information provided on tax returns, as well as conduct audits of varying levels of complexity and degrees of required taxpayer contact. Examinations range from single-issue correspondence audits (or office audits) of individual taxpayers with only wage and/or investment income to more complex examinations (by revenue agents) of small businesses and pass-through entities (e.g., partnerships, trusts and estates) to large-scale, complex corporate audits by teams of specially-trained revenue agents, attorneys, computer audit specialists, etc. Beyond examinations of income tax returns, revenue agents also conduct audits in other specialty programs that include the following: excise tax, estate and gift tax, employment tax, exempt organizations, pension plans, and international examinations (of U.S. taxpayers residing abroad).

Program Activity:

- **Legal Guidance** - Legal guidance and advice provided by the Office of Chief Counsel to support examination and audit activities. Such cases often involve high-dollar corporate examinations and complex tax issues for which no clear legal precedent exists (e.g., tax shelters, abusive schemes).
- **Document Matching** - Compares tax return data with information documents (e.g., Forms 1099, W-2) and resolves apparent discrepancies through correspondence with taxpayers through the Automated Under reporter Program. Includes similar activities related to Combined Annual Wage Reconciliation, Annual Wage Reporting, and the Federal Unemployment Tax Act. These on-going computer matching programs promote efficient resolution of large numbers of reporting deficiencies while minimizing taxpayer burden.
- **Electronic/Correspondence** - Remote examinations of tax returns via correspondence by tax examiners located in Compliance Campuses. Correspondence audits usually involve simple requests for required documentation or verification of dollar amounts claimed as deductions or tax credits. Substantial resources are devoted to reviewing returns that involve eligibility for refundable tax credits (e.g., Earned Income Tax Credit).

Internal Revenue Service

- **Field** - Examinations that require face-to-face contact with individual or business taxpayers. Such examinations include office audits by tax compliance officers and more complex, on-site audits of businesses and corporations by revenue agents and agent teams. Beyond individual and business income tax audits, Field examination activities involve tax-exempt organizations, employee benefit plans and specialty programs that include excise, estate and gift, employment taxes and international tax programs.
- **Litigation** - Tax court litigation and/or refund, appellate, or other cases related to enforcement of the tax code.

Budget Activity: Collection - Provides staffing, training, and direct program support to secure payments of delinquent taxes and secure completed tax returns from individuals and businesses not in compliance with filing requirements. Collection processes and activities involve automated notices, telephone collection efforts by customer service representatives and face-to-face efforts by revenue officers to secure payment of delinquent taxes, interest and penalties and/or tax returns.

Program Activity:

- **Electronic/Correspondence** - This program provides the resources for the Service's centralized automated collection efforts such as the Automated Collection System (ACS) and the Compliance Service Collection Operation (CSCO). This program is a central focus in the Service's efforts to facilitate and encourage voluntary compliance through the use of specialized enforcement processes that include automated notice processing, installment agreements, offers-in-compromise and insolvency procedures. This activity also includes the Automated Substitute for Return (ASFR) program, which uses available information documents (e.g., Forms W-2, 1099) to create a return for individuals and business non-filers.
- **Field Collection** - Field Collection involves front-line enforcement activity by revenue officers to secure delinquent payments and returns through face-to-face contact with individual and business taxpayers. Enforcement tools available at this stage of the process include liens, levies and seizures of property to satisfy established tax delinquencies, including applicable interest and penalties. In addition, field cases may involve negotiations, litigation or referral for criminal investigation.

Budget Activity: Investigations – Investigates potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law. Staff works effectively with Department of the Treasury, Department of Justice and other law enforcement partners to enforce tax laws and criminal statutes to combat corporate fraud, terrorism and the financial aspects of other criminal activity and to enhance Bank Secrecy Act compliance efforts.

Internal Revenue Service

Program Activity:

- **Criminal Investigations** - This activity provides staffing, training and direct support for the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. It investigates cases of suspected intent to defraud involving both legal and illegal sources of income, and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax on money laundering violations associated with terrorist financing and narcotics organizations.

Budget Activity: Regulatory Compliance - This activity provides staffing, training and direct support resources to ensure that the tax law is consistently interpreted and applied to all IRS customers. These programs involve a number of tax compliance issues not directly related to collection of revenue. Among these are rulings on exempt status of tax-exempt organizations and qualified pension plans, enforcement of currency reporting requirements and oversight of disclosure and practitioner issues.

Program Activity:

- **Rulings and Agreements** - Provides fair and impartial legal advice through private letter rulings and through determination letters for exempt organizations and employee pension plans
- **Interpretation and Guidance** - Interpretations of tax law through published guidance, technical advice, and other legal services
- **Non-Tax Regulatory Compliance** - Ensures compliance with disclosure laws and provides IRS with general legal assistance on non-tax issues
- **Currency Transaction Reporting** - Processing of reports for currency transactions and Bank Security Act activities
- **Professional Responsibility** - Ensures honesty and integrity of tax professionals and other practitioners.

Business Systems Modernization

This appropriation funds the planning and capital asset acquisition for the IRS' information technology systems, including related contractual costs of such acquisition and contractual costs associated with operations authorized by 5 U.S.C. 3109 to modernize the IRS' antiquated business systems.

Budget Activity: Information Technology Investments

This activity provides non-labor resources that support capital asset acquisition of modernized information technology systems. The IRS has embarked upon a comprehensive modernization program designed to produce world-class information systems that meet taxpayer needs and the tax administration goals of the United States government. These resources fund large-scale modernization projects through their life cycle, beginning with project vision and strategy and continuing through requirements development, design, testing, deployment, and transition to operations. These project activities include Program Level Initiatives, E-Services, Filing & Payment Compliance, Collection Contract Support (CCS), Modernized e-file, Customer Account Data Engine, Custodial Accounting Project, Integrated Financial System, Infrastructure and Management Reserve.

Internal Revenue Service

Health Insurance Tax Credit Administration

The Trade Act of 2002 required the IRS to develop and operate a system to provide an advance, refundable tax credit for 65 percent of the cost of qualified insurance for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation. This appropriation maintains the administrative and direct support for the Health Care Tax Credit Program Office and its staff, who are charged with administering the program for the Service.